

THE NORTHWEST REPORT

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For Manufactured Home Community Owners, Operators and Investors

NEWS AND TRENDS

Fueled by a feeling among investors that interest rates have no place to go but up, buyers continue to show a strong desire to acquire manufactured home communities with affordable financing available from a variety of lenders. As of August 30th rates continued to be aggressive. Five year fixed rates were as low as 3.468% and seven year rates were being quoted at 4.067% by some banks. Loan costs are capped by some lenders at \$2,500, lower rates are available on low-leverage loans and loans above \$2.5 million, ninety-day rate locks are possible and step down prepays are part of the terms. ARM's (Annual Renewable Mortgages) start at rates as low as 2.00% for premium quality California properties and rise in increments up to a maximum of 3.00%. Loans are fully amortized (no balloon payment) and requirements for applications are the typical items – Rent Roll, four year operating history, borrowers financial statement, executive summary with pictures and two years tax returns. Approvals can be issued in as little as one week.

One lender added: *As always, please keep in mind that our Best-Execution rate always pertains to a completely ideal scenario. There are many reasons a quoted rate may differ from our average rates, and in those cases, assuming you're following along on a day to day basis, simply use the Best-Execution levels we quote as a baseline to track potential movement in your quoted rate.*

CAP RATES & PRICING

Interest rates drive CAP rates. The lower the CAP rate the higher the sales price. As interest rates have remained low sellers can demand a higher price for their community and the low cost of money helps to make a buyers return-on-investment (ROI) and net operating income (NOI) hit their target levels. This drives cap rates lower and sales prices higher. As interest rates rise, sales prices are likely to adjust downward. In the end this all translates to one thing – as a seller, you will get your best price when interest rates are low, and since they aren't predicted to stay this low indefinitely, now is a great time to sell.

When discussing interest rates, the bond market, and the current economic situation one lender shared their view on what's taken place in the past year and what their short-term outlook is:

- After rising consistently from all-time lows in September and October 2012, rates challenged the long term trend higher, but failed to sustain a breakout.
- Uncertainty over the Fed's bond-buying plans is causing immense volatility in rates markets and generally leading rates higher.
- Fears about the Fed's bond-buying intentions were proven well-founded on May 22nd when rates rose to 1yr highs after the Fed indicated their intention to taper bond buying programs sooner versus later.

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- The June 19th Federal Open Market Committee (FOMC) Statement and Press Conference confirmed the suspicions. Although tapering wasn't announced, the Fed made no move to counter the notion that they will decrease bond buying soon if the economic trajectory continues. The FOMC consists of the seven members of the Board of Governors of the Federal Reserve, and five Presidents of regional Federal Reserve banks.
- Rates Markets "broke down" following that, as traders realized just how much buy-in there was to the ongoing presence of "Quantitative Easing". These convulsions led to one of the fastest moves higher in the history of mortgage rates and market participants have not been eager to be among the first explorers to head back into lower rate territory until they're sure they'll have some company.

PRESERVING ACCESS TO FINANCING

In early January 2014, new regulations stemming from provisions of Dodd-Frank will significantly limit many low-to moderate-income consumers' ability to obtain financing needed to purchase a manufactured home unless the manufactured housing industry is able to pass the *Preserving Access to Manufactured Housing Act* (H.R. 1779). This legislation is critical for remedying the regulatory burdens facing the industry and restoring full access to financing that is a necessity to potential homebuyers and our industry. The MHI Annual Meeting will highlight the industry's efforts to secure relief needed from Dodd-Frank and clearly identify what actions are needed with Congress to meet the industry's goals. See the Upcoming Event's section of this newsletter for specific information on how to attend this year's MHI Annual Meeting.

The manufactured home industry has struggled to achieve parity in financing ever since the industry peaked at 383,000 shipments in 1998. Because of the high foreclosure rate that followed and coupled with steady depreciation in the product (not to mention less than stellar best practices by retailers and finance companies alike), the past fifteen years have been a tough time for financing of manufactured homes. Fannie Mae and Freddie Mac do not purchase chattel, personal property manufactured home paper, so buyers of homes to be placed in manufactured home land lease communities must find financing through channel's where the cost of money is higher than Freddie and Fannie backed financing. This challenge will continue until some resolution is found, and H.R. 1779 is a good start.

MANUFACTURED HOME SALES IN MHC'S SHOW IMPROVEMENT

As the economy improves, so have the sales of new and existing manufactured homes in manufactured home communities. Community owners across the West are reporting brisk sales of homes so far in 2013. Specifically, low priced homes in all-age communities and newer homes in 55+ age restricted communities. In the Portland area and both Southern and Central Oregon, community owners have seen some success in placing new homes in established communities and selling them at cost. They are not offering in-house financing and buyers must qualify from both a credit and income perspective. With several chattel lenders active in the market financing is available and community owners can introduce buyers to mortgage brokers who have ready access to this financing.

In all age communities, price and monthly payment still seems to be the driving factor. Apartment rents are up and rental housing is scarce so we are seeing a return to families looking at manufactured home communities as a viable

housing option. Rental houses (site-built) are almost non-existent, so a manufactured home, with its own driveway, yard, and some privacy is a great choice for young couples and families, or those on a budget. Marketing is critical and reaching these buyers isn't easy, but using the internet is a start. There are many great websites but none is less expensive and more reliable than MHVillage.com.

NEW ADVERTISING IDEAS FOR FILLING VACANCIES

While newspaper classified ads can still work, since most papers have an online component, statistics still show that 95% of those looking to rent or buy a home start the process on the internet. The largest website for manufactured home listings is www.MHVillage.com. This website received almost 1,800,000 website visits in July and over 11 million so far in 2013. Those visits resulted in 64,000 July leads being generated and 4,800 home sales nationwide that were directly attributable to MHVillage. You can contact MHVillage at 800-397-2158 and find out what a fantastic full color listing can look like for as little as \$20 per month with no long term commitment. Dan Rinzema started MHVillage and is also the owner of Datacomp, a 30 year old company with a history of providing fast, accurate and dependable manufactured home valuations for lenders and portfolio owners. Dan can be reached at 800-365-1415.

Newspapers with an online component still work surprisingly well. If your community is in a small town, local newspapers can have a big impact as they are still the #1 source of local news. A simple ad, such as "Affordable 3 bedroom, 2 bath home in lovely neighborhood just a mile from city center, for sale by owner for only \$39,550" should make the phone ring off the hook. In a family community, ads that include "...school bus stop just a block away, use of a community playground and basketball courts included" will bring in surprising results.

Of course, the key to making this all payoff is to have on-site managers who have the personality and basic skills necessary to greet prospective residents and build on their initial interest. Nowadays recruiting managers who have some sales skills and the personality to go along with it has become as important as their property management and maintenance skills. Virtually every community has, to some degree, a vacancy problem and an important part of each manager's daily routine includes being a proponent of the community, an ambassador to new residents and someone that can adequately promote the livability and lifestyle of living in a manufactured housing community.

RECRUITING AND TRAINING ONSITE MANAGERS

Most community owners are always searching for new ways to recruit on site managers. One effective method is by advertising for apartment managers. If an ad under apartment management at an online site such as Monster, Indeed or Mac's List.com reads "Experienced apartment managers needed in the Yakima area, great location, competitive compensation package, low turn-over community, bookkeeping and maintenance skills a must", it will attract quality candidates. Imagine their surprise when you tell them it's a manufactured home community and they won't have to deal with move-ins and move-outs seven days a week. It's going to bring in quality people with property management experience who may never have considered managing a manufactured home community.

NATIONAL AND STATE DATA

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COMMERCIAL REAL ESTATE BROKERS
The Manufactured Housing Community Network

The latest production and shipment information available indicates that in June 2013, 5,347 new manufactured homes were shipped, up 5.1 percent from June 2012. Shipments by housing type moved in the same direction with both single and multi-section homes up compared to the same month last year. Total floors shipped were 8,299, an increase of 4.7 percent when compared to June 2012.

In comparison with 2012, 2013 registered an increase in January shipments followed by a decline in February and March. The upward trend returned in April and continued through June with increases in shipments every month. For the first six months of this year, shipments totaled 29,138 homes compared with 27,714 homes in 2012, an increase of 5.1 percent.

UPCOMING EVENTS

INTERNATIONAL NETWORKING ROUNDTABLE

Presented by George Allen, MHM & CPM

September 18 – 20, 2013

Hilton Chicago Indian Lakes Resort

Call GFA Management for a registration form at 1-317-346-7156

P.O. Box 47024, Indianapolis, IN 46247

MHI'S ANNUAL MEETING

September 29 – October 1, 2013

La Costa Resort, Carlsbad, CA (near San Diego)

Hotel reservations 800-438-9217

NATIONAL COMMUNITIES COUNCIL FALL LEADERSHIP FORUM

Building a Vision for the Future

October 16-18 / 2 nights

The W Chicago City Center Hotel

Featured Speaker: Sam Zell

Chairman, Equity LifeStyle Properties.

“The Future of the Land Lease Business Model”

“The Role of Marketing and Image”

Three “Mini-Sessions” of Operational Best Practices

Contact Jenny Hodge, VP of the National Communities Council

703-558-0400

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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