NW PARK BROKERAGE

PHONE: 206.652.4100
TOLL FREE: 888.205.8281
FAX: 206.652.4540

WWW.NWPARKS.COM

COMMERCIAL REAL ESTATE BROKERS
The Manufactured Housing Community Network

The Northwest Report

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For Manufactured Home Community Owners, Operators and Investors

STRONG NORTHWEST SALES CLIMATE CONTINUES

The sunny, dry fall weather isn't the only thing to smile about in the Pacific Northwest. With attractive interest rates continuing to finance a bullish market, coupled with attractive CAP rates, manufactured housing communities up and down the west coast are as sought after as ever, several industry sources have confirmed. CAP rates are strong, hovering around a 6-CAP (with appropriate expenses for premium, larger communities) and possibly even lower for some "trophy" properties. Average or "3-star" communities can attract a CAP rate in the sixes or lower seven's if accompanied by reasonable expenses and a manageable vacancy rate.

Comfortable interest rates and terms make buying a manufactured home community hard to resist. Rates have been reported to be as low as 3.394 on a 5-year fixed, 3.968 on a 7-year fixed and 4.546 on a 10-year fixed rate manufactured home community mortgage, according to one California-based mid-sized lender. Another lender is advertising almost identical rates, both with 80% loan-to-values (LTV's), closing costs capped at $2500 (including appraisal) and loan amounts to $10 million. Fully amortized loans are more common than in recent memory, so the fear of 5 or 10 year "balloon" repayment terms have nearly evaporated. Underwriting criteria remains consistent with longtime industry standards, which include a rent roll, 3-4 years operating history, borrowers financial statement with list of real estate owned, executive summary with photos and a financial statement. With these terms available, and a regional economy that is stable if not on an upswing, it is no wonder so many investors are looking for manufactured home communities.

NEWS AND TRENDS

While multifamily investors have had a smashingly successful time at the apartment bash in the past couple of years, and U.S. single-family home prices have surged 12% in the past year, the manufactured housing segment continues to struggle. Manufactured housing traditionally provides a low cost alternative in suburban and rural areas to individuals and families with annual household incomes generally less than $40,000 - a segment particularly hard hit during the recession and an equally hard time coming back. "Despite manufactured housing's modest share of the total housing stock, the drop in manufactured home production is notable both because of the severity of decline and because manufactured homes account for an outsized share of low-cost housing, particularly among owner-occupants," says Patrick Simmons, director, strategic planning, Economic & Strategic Research Group of Fannie Mae. "Whereas manufactured homes account for 7% of all owner-occupied homes, they represent 16% of owner-occupied units with monthly housing costs of less than $500."

There has been an ongoing consolidation of manufactured housing community owners. Two large owners of manufactured housing communities, Hometown America Corp. and American Residential Communities, have sold more than a half a billion dollars each. Major buyers include Denver-based YES! Communities, which this past April acquired 64 manufactured housing communities from fellow Colorado-based firm American Residential Communities. YES! has been particularly active in acquiring manufactured home communities, and has seen its footprint grow by more than 300% in the last five years.

However, the largest buyer has been Chicago-based Equity Lifestyle Properties, including the acquisition of 35 communities from Hometown America in a single transaction two summers ago. In its most recent quarterly earnings conference call, Marguerite M. Nader, CEO and president of Equity Lifestyle Properties, said his firm doesn't yet have a clear picture of the extent of buying opportunities in this segment.

A revival of manufactured housing production faces multiple obstacles, according to Fannie Mae's Simmons, including competition from distressed sales of site-built single-family homes, historically low interest rates and record affordability for site-built homes, limited conventional financing options due to titling of most manufactured homes as personal property, an underdeveloped secondary market for manufactured home loans, and pending financial regulations that could further curtail manufactured home lending, he listed. Nevertheless, industry leaders and investors are very optimistic that 2014 will be a year of growth for the industry. *From industry reports.*

MANUFACTURED HOME COMPANIES REBOUND

With the government crisis in the rear view mirror, all three indexes ended the week on a positive note, as the S&P once again set a new high. ***CNNMoney*** reports the Dow Jones Industrial Average moved up +28.00 points, +0.18 percent, to end the day at 15,399.65. The Nasdaq advanced +1.32 percent, +51.13 points to end today's session at 3,914.28, while the S&P advanced +0.65 percent, +11.35 points, to close at 1,744.50, a new high**. The Yahoo! Finance Manufactured Housing Composite** moved up +0.95 percent to close at 934.2. Housing stocks we track in today's trading closed up or even, except ELS. Drew Industries gained the most of tracked stocks, +4.01 percent, +1.96 to finish at 50.81. Equity LifeStyle Properties, Inc. was the only stock we follow that fell -0.35, -0.95 percent, to finish at 36.65. Affiliated Managers Group 198.55 +3.14 (+1.61%). Cavco Industries 60.27 +0.285 (+0.48%). Clayton Homes, Vanderbilt Mortgage and Finance, as well as MH home-building, lending and other housing suppliers parent company Berkshire Hathaway 175,400 +114.00 (+0.07%). Deer Valley remained unchanged at 0.65. Liberty Homes remained unchanged at 0.60. Louisiana Pacific Corp. 17.61 +0.07 (+0.40%). Nobility Homes remained steady at 9.25. Patrick Industries, Inc. 29.38 +0.35 (+1.91%). Skyline Corp. 4.44 +0.09 (+2.07%). Sun Communities, Inc. 44.28 +0.28 (+0.64%). Third Avenue Value Fund (Oct. 17) 58.23 +0.52 (+0.90%). UMH Properties, Inc. 10.48 +0.18 (+1.75%). Universal Forest Products Inc. 47.50 +0.84 (+1.80%).

CAVCO REPORTS IMPROVED EARNINGS

Cavco Industries, Inc. recently announced financial results for the first quarter ended June 29, 2013 of fiscal year 2014. Cavco is the second largest manufacturer of manufactured homes in the industry, just behind Clayton Homes.

Net revenue for the first quarter of fiscal 2014 totaled $134.0 million, up 12.8% from $118.8 million for the first quarter of fiscal year 2013. Net income for the fiscal 2014 first quarter was $3.9 million compared to $1.6 million reported in the same quarter one year ago. Net income attributable to Cavco stockholders for the fiscal 2014 first quarter was $1.8 million, compared to net income of $0.9 million reported in the same quarter of the prior year. Net income per share based on basic and diluted weighted average shares outstanding for the quarter ended June 29, 2013 was $0.26, versus $0.12 for the quarter ended June 30, 2012.

Subsequent to the end of the first fiscal 2014 quarter and as previously disclosed, Cavco completed the purchase of all non-controlling interests in Fleetwood Homes, Inc., a jointly-owned corporation formed in 2009 by the Company and Third Avenue Value Fund. Fleetwood Homes, Inc., a Cavco subsidiary, owns Fleetwood Homes, Palm Harbor Homes, Country Place Mortgage and Standard Casualty Company.

As consideration for the 50 percent interest that it did not already own, the Company agreed to pay $91.4 million in Cavco common stock. The resulting issuance of 1,867,370 shares increased the Company's total number of common shares outstanding to 8,837,324. Historically, 50 percent of the financial results of these businesses have been recorded as attributable to Cavco's common stockholders in the Company's consolidated financial statements. As of July 22, 2013, Cavco owns 100 percent of these businesses and is therefore entitled to all of the associated earnings from that date forward.

SEQUIM COMMUNITY OWNER DONATES BAYWOOD VILLAGE

Leo Shipley, a longtime member of the Sequim Senior Activity Center in Sequim, Washington donated his 9-acre manufactured home community, Baywood Village to the senior center in order to provide a steady stream of funding for the center. Baywood Village, valued at $1.7 million is the largest of Shipley's donations to the senior's center but not his only donation. In 2010 Shipley donated more than $218,000 to the center to purchase 4.48 acres for construction of a new facility. In 2012 Shipley donated another $170,000 in platinum, gold and silver coins and bullion to the center. With his donation's now totaling more than $2.2 million, the Sequim Senior Activity Center's board of directors decided to rename both the current and future senior's center's The Shipley Center. Asked why he donated Baywood Village, Leo Shipley plainly said "you can't take it with you."

FEDERAL LEGISLATION

In order to protect more than 22 million American's living in manufactured homes, Congressmen Stephen Fincher (R-TN), Bernie Thompson (D-MS) and Gary Miller (R-CA) have introduced the bipartisan Preserving Access to Manufactured Housing Act to protect the availability of financing for affordable manufactured housing, a critical resource for low and moderate income families. The bill would amend the Dodd-Frank Wall Street Reform and Consumer Protection Act to change the criteria by which home loans are classified as "high-cost" while keeping in place strong consumer protection. Earlier this year the Consumer Financial Protection Bureau ruled that manufactured home loans will be covered by the Home Ownership and Equity Protection Act (HOEPA). Under these guidelines, effective January of 2014 a large percentage of small balance loans used for the purchase of affordable manufactured housing loans would be unfairly classified as predatory and high-cost.

The Preserving Access to Manufactured Housing Act would amend the thresholds by which designated small balance manufactured home loans are currently classified as high cost under HOEPA.

NATIONAL AND STATE DATA

The latest production and shipment information available indicates that in August of 2013, 5,842 new manufactured homes were shipped, up 4.9 percent from August 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 9,084, an increase of 3.7 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 August with increases in shipments every month. For the first eight months of this year, shipments totaled 39,754 homes compared with 37,498 homes in 2012, a net increase 6.0 percent.

UPCOMING EVENTS

MANUFACTURED COMMUNITIES OF WASHINGTON FALL TRAINING SERIES

Vancouver, October 24th
Creekside Estates
5101 NE 121st Ave.
Linda Lopriare 360-254-8586

Everett, October 30th
Lago De Plata
620 112th St. SE
Theresa Barile 425-353-1766

MHI LEGISLATIVE CONFERENCE & WINTER MEETING

February 9-11, 2014
Westin Arlington Gateway
Washington D.C. / Arlington, VA
To go www.manufacturedhousing.org

2014 NATIONAL CONGRESS & EXPO FOR MANUFACTURED & MODULAR HOUSING

April 29 – May 1, 2013
Caesars Palace
Las Vegas, NV

Estimated $25 Million in closings due to close this Quarter.
Sellers Needed!
Please Call or 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