

## THE NORTHWEST REPORT

Issue 37 – November / December 2013

For Owners, Operators and Investors in Manufactured Housing Communities Nationwide

# Happy Holidays!

### *A SPECIAL THANK YOU*

*We at Northwest Park Brokerage would like to extend a special thank you to our clients and friends who helped make 2013 an outstanding year for our firm. Listings and closed transactions increased significantly in 2013 and we had the pleasure of meeting many new clients whom we look forward to building a lasting relationship with for many years to come. We hope you and your family enjoy a safe, happy and healthy holiday season and we look forward to a very prosperous and exciting 2014 together!*

### **LOOKING AHEAD TO 2014**

We have every reason to believe 2014 will be an excellent year in the manufactured housing communities sector. More economic opportunities will present themselves in 2014 and sellers will welcome the increased interest in manufactured home community investment, attracting new, aggressive buyers to this asset class. Interest rates, by all indications will remain low for the time being. Loan terms are improving as competition for manufactured home community mortgages becomes more competitive, forcing lenders to consider loosening tight underwriting requirements in 2014 and assume a slightly larger portion of the risk. There are still more buyers than sellers, a sure sign of a strong and stable marketplace, especially in Western Oregon and Washington, where the real estate market gets stronger each month and the need for affordable housing grows exponentially.

### **STRONG NORTHWEST SALES CLIMATE CONTINUES**

The sunny, dry fall weather coupled by cold winter temperatures isn't the only thing to talk about in the Pacific Northwest this December. 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 6 percent (with appropriate expenses for premium, larger communities) and possibly even lower for some "trophy" properties. Average or "3-star" communities can even attract a CAP rate in the sixes or lower seven's if accompanied by reasonable expenses and a manageable vacancy rate.

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Comfortable interest rates and terms make buying a manufactured home community hard to resist. Rates have been reported to be as low as 3.385 on a 5-year fixed, 4.050 on a 7-year fixed and 4.656 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 30-year amortizations. Underwriting criteria remains consistent with longtime industry standards, which include a rent roll, 3-4 years' operating history, borrower's financial statement with list of real estate owned, executive summary with photos and a financial statement. With low interest rates 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 as a preferred real estate asset class and long term investment.

### **NEWS AND TRENDS**

As the housing market continues to improve homebuilders and land developers are back in big demand, according to numerous real estate sources across the country. "Investors see a lot of runway in front of homebuilders as they prepare for the takeoff of the residential markets recovery" reports one respected industry observer in a recent interview. As home and land price appreciation has climbed over the past year after the bottom fell out of the business in 2006 and 2007 many homebuilders are expanding their land holdings, in some cases as much as fifty percent. Housing fundamentals look better too with new home inventory tight. There is limited entitled and developed land in the best locations and affordability remains high despite recent upticks in interest rates from historic lows.

As proof of the renewed interest in homebuilding, recently Starwood Capital Group agreed to acquire Weyerhaeuser's homebuilding subsidiary, Weyerhaeuser Real Estate Co. in a transaction valued at \$2.7 billion. Weyerhaeuser is focusing their business on their core strength of forest products and not the homebuilding sector. In another acquisition, Toll Brothers Inc. bought Shapell Industries, a private California building for \$1.6 billion in cash. With the acquisition of 5200 Shapell lots in California this brings Toll Brother's buildable lots in California to 9200.

Consolidations, buy-outs and acquisitions have occurred throughout the manufactured housing sector over the past several years. Clayton Homes, the largest manufactured home building acquired Oakwood Homes, Golden West Homes, Marlette, Karsten and numerous others. Cavco Industries has acquired Fleetwood and Palm Harbor, along with their respected finance and insurance subsidiaries. In the manufactured housing community sector Green Courte Partners acquired American Land Lease, which has in turn acquired a number of properties in the east and southwest. Hometown America Corp. and American Residential Communities have sold more than a half a billion dollars each in manufactured home communities. 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.

### **CAVCO REPORTS STRONG RESULTS**

Cavco Industries, Inc. (CVCO) recently announced financial results for the second quarter and first six months ended September 28, 2013 of fiscal year 2014. Net revenue for the second quarter of fiscal 2014 totaled \$129.8 million, up 17.9% from \$110.1 million for the second quarter of fiscal year 2013. Net income for the fiscal 2014 second

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PHONE: 206.652.4100  
TOLL FREE: 888.205.8281  
FAX: 206.652.4540

WWW.NWPARKS.COM

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quarter was \$4.7 million compared to \$2.7 million reported in the same quarter one year ago. Net income attributable to Cavco stockholders for the fiscal 2014 second quarter was \$4.3 million, compared to net income of \$1.3 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 September 28, 2013 was \$0.51 and \$0.50, respectively, versus \$0.18 for the quarter ended September 30, 2012. The effective income tax rate for the second fiscal quarter was approximately 30% compared to approximately 39% during the same quarter last year.

For the first six months of fiscal 2014, net sales totaled \$263.8 million, up 15.3% from \$228.9 million for the comparable prior year period. Net income attributable to Cavco stockholders for the first half of fiscal 2014 was \$6.1 million, compared to \$2.1 million last year. For the six months ended September 28, 2013, net income per share based on basic and diluted weighted average shares outstanding was \$0.80 and \$0.79, respectively, versus basic and diluted net income per share of \$0.30 for the prior year period.

During the second 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 Cavco and Third Avenue Value Fund. Fleetwood Homes, Inc., a Cavco subsidiary, owns Fleetwood Homes, Palm Harbor Homes, CountryPlace Mortgage and Standard Casualty Company. As consideration for the 50% interest that it did not already own, Cavco paid \$91.4 million in its common stock. The resulting issuance of 1,867,370 shares increased the total number of common shares outstanding to 8,837,324.

### ***NATIONAL AND STATE DATA***

The latest production and shipment information available indicates that in October of 2013, 6,087 new manufactured homes were shipped, up 18.3 percent from October of 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 9,409, an increase of 17.9 percent when compared to October 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 October with increases in shipments every month. For the first ten months of this year, shipments totaled 51,276 homes compared with 47,024 homes in 2012, a net increase 9.0 percent.

The seasonally adjusted annual rate (SAAR) of shipments was 63,893, up 6.9 percent from the adjusted rate of 59,771 in September of 2013. The SAAR corrects for normal seasonal variations and projects annual shipments based on the current monthly total. The number of manufacturing plants reporting production in October was 121, down one from the previous month and the number of active corporations was 46, unchanged from the prior month.

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7683 SE 27TH ST SUITE 315  
MERCER ISLAND WA 98040

205 SE SPOKANE ST SUITE 348  
PORTLAND OR 97202



PHONE: 206.652.4100  
TOLL FREE: 888.205.8281  
FAX: 206.652.4540

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### UPCOMING EVENTS

#### MANUFACTURED COMMUNITIES OF WASHINGTON

Annual Legislative Day and Reception

January 30, 2014

River's Edge Restaurant  
41511 Tumwater Valley Drive  
Tumwater, WA

For more information contact:  
Theresa Hermanson 360-753-8730

#### MHI LEGISLATIVE CONFERENCE & WINTER MEETING

February 9-11, 2014

Westin Arlington Gateway  
Washington D.C. / Arlington, VA

To go [www.manufacturedhousing.org](http://www.manufacturedhousing.org)

#### 2014 NATIONAL CONGRESS & EXPO FOR MANUFACTURED & MODULAR HOUSING

April 29 – May 1, 2013

Caesars Palace  
Las Vegas, NV

#### MANUFACTURED HOUSING INSTITUTE

2014 SUMMER MEETING

June 8-10, 2014

The Alexander Hotel  
Indianapolis, IN

**Over \$500,000,000 in park sales. Visit our website at [www.nwparks.com](http://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](mailto:billj@nwparks.com)**

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MERCER ISLAND WA 98040

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PORTLAND OR 97202