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COMMERCIAL REAL ESTATE BROKERS
The Manufactured Housing Community Network

The Northwest Report

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For Owners, Operators and Investors in Manufactured Housing Communities Nationwide

OREGON BATTLE RESULTS IN LEGISLATIVE CHANGES

A last minute battle of sorts took place recently between the Oregon Park Owners Alliance (OPOA), a growing and assertive manufactured home community owners group, and Manufactured Housing Communities of Oregon (MHCO), the largest MH owners group in Oregon. The battle was over House Bill 4038, which seeks to enact changes to Oregon's current law relating to resident purchases of manufactured home communities. HB 4038 had unanimously passed the Oregon House and was sent to the Senate floor on a 3-2 committee vote when OPOA and their lobbyist told Senator's OPOA opposed portions of the Bill and wanted some changes made. OPOA members persuaded Senators by email and phone calls to hold off, and OPOA met with MHCO and other advocates of the Bill to reach a last minute compromise on amendments. OPOA felt the Bill was "taking away park owners' property rights in the event of a potential sale of their property".

The Bill had to be pulled off the Senate floor and sent back to the Rules Committee where it was amended on February 27th. Amendments include different language relating to tenant committees organized for the purpose of purchasing the community. In the amendment it states that there can be no more than ONE tenant committee formed to pursue a tenant purchase of the community if the owner gives the tenants 10 days-notice that he/she intends to sell the community. A second amendment waives the notice to sell requirement for transfers between an LLC to its members or between LLC members. The third amendment pushes the effective date of HB 4038 to January 1, 2015 (previously it was going to be 90-days after passage of the bill) in order to give community owners enough time to learn about the new law.

Many community owners responded with comments such as: "…since we are Oregon's only unsubsidized affordable housing we should lobby for a sewer rate that reflects that we are not a single family dwelling but affordable housing for the elderly", and "I would like to unbundle utilities and pass them through to everybody with 90 days-notice provided I roll back the rents by the same amount as the previous months usage". Another said "I think taking the offense on some issues is a great idea… it would help us continue to offer the best in non-governmental subsidized affordable housing and keep our industry viable".

Resident purchases of manufactured home communities is a hot topic, even though only a handful of such purchases have ever taken place in Oregon or most other states, with the exception of New Hampshire. Some opposed to the practice believe that certain non-profit groups and tenant advocates want all MH communities owned by residents. Other owners aren't necessarily opposed to the concept but they don't believe tenants should get first right of refusal. They would rather see tenants purchase their community through normal competitive channels in a free market system.

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This legislation has a dramatic impact on manufactured home community owners. It can hold up a sale to an investor-buyer or discourage an investor-buyer from potentially getting in the middle of a squabble between the community owner and the tenants. Also, it can negatively affect the price a seller can expect from a community sale. Most investor-buyers have 25-30% equity down (or more) and can achieve a decent return on investment with a nominal adjustment in space rents. Conversely, resident purchases are usually financed by 105% to 110% financing at interest rates significantly higher than current mortgage rates. This requires the residents to give themselves a very large space rent increase. The result of this financing model is that residents will come back to the seller and expect a lower price in order to qualify for onerous financing terms.

The bottom line? It's entirely possible that a seller will have a much longer and more complicated sale when selling to the residents, and be forced to accept a lower sales price in the process.

NEW TRENDS

A stronger market has continued to improve in 2014. Industry news from around the country continues to point toward a slow but steady recovery in manufactured home sales and production. Most home manufacturers have stabilized and returned to profitability after years of declining sales, red ink, bankruptcies, closures and mergers. Missing is the return of street – highway retail locations where new manufactured homes are obvious to the public and promoted to the masses as an alternative to renting, condominiums or site built construction.

While industry insiders continue to express concern over this trend little is being done to reverse the shift in retailing styles. A few more sales centers are actually being opened in the parking lot of manufactured home plants where overhead is low and the model homes can be used as a display to both retail consumers and potential wholesale distribution channels. However, these plants are often in small towns or away from high-traffic roads and highways where the product is exposed to a wider audience. In the Pacific Northwest only a small number of retail locations remain and the once "giants" of the industry, Clayton and Palm Harbor homes now collectively only operate four retail locations in the region.

Manufacturers are grateful for their alliance with manufactured home community owners and operators. These growing relationships have produced results welcomed by everyone involved. Community owners continue to slowly refill vacant home sites with new homes and factories sell more homes to locations where they are only moved once before being permanently installed and occupied. Finance companies love the turn-key sale and since most communities owners are not as focused on home sale profits as they are increasing community revenue, loan-to-value ratios are low and monthly payments are affordable for new buyers.

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COMMERCIAL REAL ESTATE

A key measure of developer sentiment about conditions in the apartment and condominium markets weakened in the closing months of 2013, according to the National Association of Home Builders (NAHB). The Multifamily Production Index (MPI) declined four points to 50 in fourth-quarter 2013 over the prior quarter, falling to its lowest reading since fourth-quarter 2011.

The index is a scaled composite of three measures of construction in the multifamily housing market, including low-rent units, market-rate rental units and for-sale condominiums. A score of 50 shows that an equal number of respondents report that conditions are getting worse as report conditions are improving. Of the trio of components, builder perceptions of higher rent market-rate properties have so far been the strongest during the apartment recovery and expansion, remaining above 50 for 13 straight quarters. However, the market-rate index dipped four points in the fourth quarter to 60. Low-rent units fell three points to 47, while the for-sale unit measure declined four points to 46.

The Multifamily Vacancy Index (MVI), which measures the industry's perception of condo and apartment vacancies, dropped two points to 38, with a lower number indicating fewer vacancies. The index began to improve consistently in 2010 and has been fairly stable since 2011 following its peak of 70 in the second quarter of 2009.

Despite the most recent dip in builder sentiment, multifamily demand remains strong, with high occupancies in existing assets. The continued decline in the U.S. homeownership rate and increases in household formation are driving demand, along with favorable demographic trends, including the rising numbers of younger people entering the job market and retiring Baby Boomers scaling down into multifamily housing.

Among all commercial property types, multifamily projects saw the largest increase in construction starts in January -- 7.2% on a three-month moving average, according to F.W. Dodge data analyzed by Citi. Lodging starts increased by 3.2%, with office experiencing a slight increase at 0.7%. Industrial and retail construction starts recorded declines of 5.9% and 4.1%, respectively.

MARKET FACTS

The last issue of The Northwest Report featured a portion of the results from a major financial services company survey of approximately 10,000 manufactured home owners. The interest in this information drew a great deal of interest from readers. Here are some more highlights from the survey:

- 62% of manufactured home owners have purchased their home since 2001.

- 26% of manufactured home owners purchased their home between 1991 and 2000.

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- Only 8% purchased their home between 1981 and 1990.
- 40% of current manufactured home owners purchased their home in the past seven years.
- More manufactured home owners than ever are living in “parks” as compared to private property. The shift back to manufactured home community living is attributable in part to the large number of community owners purchasing and selling new homes and the shrinking number of retail dealerships in existence. Community owners now represent the majority of “retail outlets” in the country, thus steering home buyers nationwide toward their communities.
- Only 7% of manufactured home owners live in manufactured home subdivisions – communities that are exclusively manufactured housing and where homeowners own the lot under their home.
- The median model year of a manufactured home is currently a 1988 model. In the 2008 survey the median model year was a 1992 model.
- Homeowners report that 54% of all manufactured homes purchased in the past seven years were between the price of $10,000 and $49,999.
- Just 4% of all manufactured homes purchase in the past seven years sold for more than $100,000.
- No matter how hard the industry tries to promote its product name as officially a Manufactured Home (as adopted on July 1, 1977) 52% of homeowners still refer to their home as a mobile home when asked. Only 8% describe their home as a manufactured home.
- In the 2008 survey 46% of manufactured homes were described as multi-section. In 2012 that shrunk to 36%. The survey indicates 59% of all manufactured homes in existence today are single-section homes.

PRODUCTION AND SHIPMENTS

In December of 2013 (the most current statistics available), 4,005 new manufactured homes were shipped, an increase of 14.0 percent from December 2012. Increases were across the board with shipments of both single-section and multi-section homes up compared with the same month as the prior year. Total floors shipped in December 2013 were 6,289, an increase of 15.1 percent compared with December 2012. In comparison with 2012, 2013 shipments started with an increase in January followed by declines in the months of February and March. The upward trend resumed in April and continued throughout the end of the year with increases in shipments every month when compared against 2012. Year to date shipments totaled 60,210 homes compared with 54,891 homes in 2012, a net increase of 9.7 percent.

The number of plants reporting production in December 2013 was 123, up from the prior month and the number of active corporations was 46, unchanged from November of 2013.

UPCOMING EVENTS

2014 NATIONAL CONGRESS & EXPO
FOR MANUFACTURED & MODULAR HOUSING
April 29 – May 1, 2013
Caesars Palace
Las Vegas, NV

MANUFACTURED HOUSING COMMUNITIES OF WASHINGTON
ANNUAL CONVENTION
May 20 – 21, 2014
Doubletree South Center
Seattle, WA

MANUFACTURED HOUSING INSTITUTE
2014 SUMMER MEETING
June 8-10, 2014
The Alexander Hotel
Indianapolis, IN

2014 MHI ANNUAL MEETING
September 14-16, 2014
Westin Kierland Resort & Spa
Phoenix/Scottsdale, AZ

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