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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

FREDDIE MAC ENTERS MANUFACTURED HOME MARKETPLACE

Even as Congress begins debating Freddie Mac's future - as well as that of other government sponsored housing entities - the company announced plans to expand its reach into the affordable housing sectors and issued new senior housing bonds. Freddie Mac has initiated the direct purchase of tax-exempt loans to help keep rental housing affordable for lower income families and increase cost-effective financing for tax-exempt multifamily properties. In addition, it plans to provide more capital for affordable rural housing, by beginning to purchase and securitize manufactured housing community (MHC) loans. These will be commercial loans made to the community owners who own the land on which the homes reside.

"Freddie Mac is further reducing its credit risk by securitizing more of its targeted affordable business volume and helping to increase access to credit for affordable rental housing borrowers," said David Brickman, Freddie Mac Multifamily executive vice president. The initiatives fit into the Federal Housing Finance Administration's strategic goals for Fannie Mae and Freddie Mac's multifamily loan purchases. FHFA's 2014 strategic plan provides additional capacity for affordable multifamily projects. And its focus includes multifamily lending for small properties and manufactured housing rental communities.

"Manufactured housing communities are an affordable housing option for many low-income individuals, especially in rural communities where affordable apartments are less prevalent," Brickman said. "Our financing can help to increase debt capital to rural areas and help provide housing options for underserved populations. Nearly half of nation's manufactured homes are located in rural, non-metropolitan areas."

Freddie Mac initially will work with a few established MHC-experienced lenders in its network and add additional lenders later this year. Eligible properties will be stabilized, high quality, professionally-managed communities owned by experienced operators.

CFPB – The Consumer Financial Protection Bureau

The CFPB is an independent agency of the United States government responsible for protection in the financial sector. Its' jurisdiction includes banks, credit unions, securities firms, payday lenders, mortgage-servicing operations, foreclosure relief services, debt collectors and other financial companies operating in the United States. The CFPB's creation was authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act, whose passage in 2010 was a legislative response to the financial crisis of 2007-2008 and subsequent recession.

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According to Director Richard Cordray, the Bureau's most pressing concerns are mortgages, credit cards and student loans.

At the 2014 MHI Congress and Expo for Manufactured and Modular Housing, a highly attended panel discussion focused on CFPB regulations and how their new rules impact manufactured housing. Presenters included Tim Williams, 21st Century Mortgage President and Tom Hodges, General Counsel, Clayton Homes / Vanderbilt Mortgage, both Clayton (Berkshire Hathaway) companies. A third presenter was attorney Marc Lifset from Albany, New York, who advises banks and financial institutions regarding consumer lending and financial services issues.

The panel made it abundantly clear to the audience that the Dodd-Frank Act, and subsequently the CFPD regulate manufactured home "home-only" lending. They explained that every state has adopted a version of Dodd-Frank or the SAFE Act (Secure and Fair Enforcement Act) which covers all extensions of credit secured by a "dwelling". A dwelling, as defined by the Truth in Lending Act includes a manufactured home. Thus, the state SAFE Acts applies not only to residential real estate but also manufactured homes that are personal property. Therefore, all real estate lending laws apply to manufactured home-only lending.

Licensing and regulation is the key here. Any one entity generating a manufactured home loan must have the proper licenses and following all guidelines in the SAFE Act relating to mortgage lending, mortgage servicing, documentation, statements, interest rates, application procedures, fair credit reporting, points and fees structuring, discussing particular credit terms, connecting buyers to lenders, seller financing and a laundry list of other regulated activities.

FINANCING REMAINS STRONG

Manufactured home communities and apartment communities remain popular with regional, West Coast lenders. Recent reports show lenders are keeping rates down and terms reasonable as the assets perform well and returns on investment continue to result in rock solid performances. Premium pricing for MH communities remains at 3.125 percent fixed for three years, 3.348 percent at 5 years and up to 4.206 percent for a fifteen year fixed rate loan with no balloon or pre-payment penalty.

Loan costs are capped at $2,500 including appraisal in some instances. Fully amortized options for all products are available, 90-day rate locks usually apply, and loan amounts are typically capped at $10,000,000. Thirty-year fully amortized loans and even lower rates on lower leveraged loans can also be found. The application checklist remains the same, with 3 years of operating history plus year-to-date operating reports, rent roll, borrowers financial statement with list of real estate owned, executive summary of property and the borrowers last two years completed tax returns.

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NEW TRENDS

More companies are exploring ancillary income opportunities, and one of those is revenue sharing of cable and satellite television and internet services. At the Congress & Expo companies gave presentations, including Communications Consulting Group of West Palm Beach, Florida. This company consists of three executives with an extensive background in cable television and a combined 50+ years' experience with AT&T, Comcast, TCI, Direct TV and Verizon. They encourage manufactured home community owners to audit their existing agreements to be sure they are receiving the revenue they are entitled to, vet existing agreements for additional revenue opportunities, and negotiate amendments on remaining or new agreements that will benefit the community owner/operator.

NATIONAL NEWS

On May 22nd, the U.S. House Financial Services Committee passed the bipartisan Preserving Access to Manufactured Housing Act (H.R. 1779) to protect the ability of manufactured home customers to buy, sell and refinance affordable manufactured homes, the largest form of unsubsidized affordable housing in the nation. Specifically, the bill would amend the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) to address the criteria by which home loans are classified "high-cost" while keeping in place strong consumer protections. Sponsored by Representatives Stephen Fincher (R-TN), Bennie Thompson (D-MS), and Gary Miller (R-CA), the bill is also supported and cosponsored by an additional 110 House Members on both sides of the aisle.

From industry reports: A recent study shows that the share of housing starts consisting of five-or-more unit buildings topped 39 percent last month -- the highest since February 1974. Researchers say part of the gain in April was because of weather, as multi-unit starts increased in both the Midwest and Northeast. Many economists, though, recognize something more fundamental going on beyond a catch-up in demand.

Manufactured homes, a popular choice for new entrants to the ownership market, are beginning to see a shift in their core customer. According to the California Manufactured Housing Institute, 70 percent of sales there involve buyers who are not in the market for starter homes and who increasingly are paying in cash. More and more customers are looking to the manufactured niche for vacation or second homes; or they are hoping to downsize from an existing residence or find the perfect home to retire and age in place. "They are prepared to pay cash for a new down-sized home and retirement freedom from mortgage payments," according to association president Jess Maxcy. Indicators of the trend toward a higher-end customer include a 6 percent jump in the price of a manufactured, dual-section home. The average, minus the cost of the land, approached $100,000 in March 2013, compared to $94,070 a year earlier. In addition, shipments of new homes for the first two months of this year are 24 percent greater than for January and February of 2013; and the number of dealers is increasing. Although the industry has "been building homes that are indistinguishable from site-built houses for years," Maxcy says today's producers are really catering to the mid-range buyer population.

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COMMERCIAL REAL ESTATE – 1031 EXCHANGES THREATENED

For decades, real estate investors, business owners and Fortune 500 companies have used 1031 Exchanges to defer the payment of capital gains tax and depreciation recapture tax associated with the sale of their investment properties. 1031 Exchanges also allow taxpayers to maintain or diversify their portfolios and increase their purchasing power. Any investment property or property held for productive use in a trade or business, ranging from vacant land to shopping centers, can be exchanged. The taxpayer must simply purchase new qualifying real estate and follow some basic rules to complete a tax deferred 1031 Exchange.

Even though 1031 Exchanges have long been recognized as a major factor in encouraging real estate sales, as part of tax reform in separate Discussion Drafts, the House of Representatives, Senate and the President's Budget Office have all proposed eliminating or sharply curtailing the benefits of Section 1031. House Ways & Means Committee Chairman Dave Camp released a Discussion Draft of his Comprehensive Tax Reform Proposal on February 25, 2014. The Camp Proposal would repeal Code Section 1031 for like-kind exchanges occurring after 2014. Senate Finance Committee Chairman Max Baucus' tax reform Discussion Draft includes a proposal to repeal Section 1031 in its entirety. The proposed repeal would apply to exchanges made in taxable years beginning after December 31, 2014.

President Obama's 2015 Budget proposal also contains significant changes to IRS Code 1031. The President's proposal does not eliminate 1031 Exchanges, but limits the amount that can be deferred to $1 million per taxpayer per year. The elimination of 1031 Exchanges will result in a sharp decrease in real estate transactions, industry leaders from all sectors of commercial real estate believe.

MARKETING AND ADVERTISING

Almost every manufactured home community owner / operator, and nearly every manufactured home retailer has an online presence. Websites, listings on MHVillage.com, pop-up web ads and blogs are common and expected in today's era of cyber-marketing. However the steep learning curve has been how to turn those online leads into home sales. It starts with conversion – converting the website visitor into a lead, a lead into a prospect, the prospect into a showing appointment, and the showing into a sale. Half the battle is getting the consumer to your community to visit one of your fabulous new (or late model) manufactured homes.

There are plenty of statistics being floated around that should give you some idea of how you are doing. One report says that for every 1000 visitors to your website you should convert 3% (30 people) into leads. From there, 20% become prospects (6 people), 50% become showing appointments (3 people) and 30% become sales (1 sale). Therefore, you have to generate 1000 hits on your website to convert one of those visitors into a home sale. Sound tough? Not really. Nowadays 1000 website visitors aren't very many, and if you use a good SEO (search engine optimizer) you can turn these percentages into real sales and increased occupancy.

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PRODUCTION AND SHIPMENTS

The latest statistics available show that in March of 2014, 4,908 new manufactured homes were shipped, an increase of 9.0 percent from March of 2013 Increases were across the board with shipments of both single-section and multi-section homes up when compared with the same period a year ago. Total floors shipped in March 2014 were 7,567, an increase of 8.5 percent compared to March 2013. The seasonally adjusted annual rate of shipments is 59,195 ii March 2014. The number of plants reporting production is 123 and the number of corporations is 46, both unchanged from prior months.

UPCOMING EVENTS

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

Just Listed

63-Space Family Manufactured Home Community
Located in Longview, Washington
City Utilities – Metered – Tenants Pay Water/Sewer
Asking $3,300,000

50 MH Spaces/17 RV Family Manufactured Community
Located in Tumwater, Washington
~City Utilities; Tenants Pay W/S/G~
Asking Price $4,300,000
~Principles Only~

Over $400,000,000 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