

THE NORTHWEST REPORT

September 2011

For Manufactured Home Community Owners, Operators and Investors

NEWS AND TRENDS

Industry Gathering. George Allen's International Networking Roundtable for manufactured home community owners, operators and investors took place September 14-16 in San Antonio. With two hundred attendee's gathered together with the common goal of better understanding the challenges and opportunities before us, the group spent two packed days in workshops and listening to presentations from the brightest minds in the manufactured home community asset class.

Keynote speaker Joe Stegmayer, CEO of Cavco Industries (parent to Cavco, Fleetwood and Palm Harbor) gave an informative (and often times humorous) presentation highlighting both his optimistic predictions for manufactured housing, but also pointing out some of the significant obstacles facing the industry. Stegmayer outlined why he felt buyers were reluctant to purchase a new manufactured home immediately. They included: 1) they can't sell their existing house, 2) their employment or economic situation was tough, 3) negative media reports are influencing people's confidence, and 4) buyers are experiencing difficulty in obtaining financing. He also pointed to some very favorable demographic trends. They are: 1) an increased demand for affordable housing, 2) a net increase of 8 million new housing units needed by 2013.

Stegmayer emphasized the long term value of manufactured housing and where it best fulfills the needs of homebuyers, which include 1) planned communities, 2) affordable housing, 3) rural housing, 4) small developments and urban infill. Specific "good markets" were discussed, including buyers "moving up", working empty-nesters, planned manufactured home communities with various amenities to offer residents, rural locations, vacation homes, and minorities and immigrants. His "pain points" were employment, credit and appraisals, and the current inventory "hangover". His "pleasure points" were interest rates, pricing, pent up demand for housing, the fast growing 55+ demographic and the growing "echo boom" generation that likes our energy efficiency.

A national industry image campaign is not in our immediate future, according to Stegmayer. He feels the product and service is inconsistent across the country and the image portrayed in a national marketing campaign would not be carried out by retailers, resulting in disappointed consumers. He also hinted that a better value proposition was needed for home buyers who get 15-20 year loans on homes placed in communities on a month-to-month or short term rental or lease agreement.

Stegmayer closed by emphasizing CAVCO builds many homes specifically designed for manufactured home communities and they felt MHC's were a vital and important part of the future of the manufactured housing industry as a whole. His best quote came when he discussed how the industry operates, saying "we spend a lot of time trying to sell homes to people with no money or credit. Why don't we spend more time trying to sell homes to people with money and good credit?"

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RATES ARE LOW AND FINANCING IS AVAILABLE

Commercial lenders made their pitch to the 200+ attendees and the message was consistent – interest rates are predicted to stay low for the next 16-18 months as the Federal Reserve has promised to keep rates stable. Owners of manufactured home communities were encouraged to refinance their properties by the end of 2012, even if that meant paying yield maintenance. Mortgage lenders present at the Roundtable (and eager to meet community owners) included GE Capital Finance (Art Tuverson), Holliday, Fenoglio, Fowler (Zachary Koucos), Monroe & Giordano (Cary Monroe), Wells Fargo (Tony Petosa and Creighton Weber), Beech Street Capital (Dan Armstrong), Northwest Mutual Life (John Jacobs), PNC Real Estate (Ryan Welsh), Keystone Commercial Capital (Ryan Nelson) and iCap Michigan/Q10 Capital (Luis Vela).

MANUFACTURED HOME BUILDERS WANT COMMUNITY BUSINESS

There was no shortage of manufactured home builders wanting to meeting community owners and operators at the Roundtable. Promoting "Community Series Homes", they included Cavco/Fleetwood (Joe Stegmayer & Steve Quick), Champion Homebuilders (Byron Stroud & Rick Grewe), Athens Park Homes (Phil Surlles & Lance Inderman), and Clayton Homes (Aaron King).

BROKERS SHARE THEIR OUTLOOK

Real Estate Brokers from around the country made presentations at the Roundtable, pointing out where the opportunities are and sharing marketing observations mixed with specific data. Some brokers boldly predicted a flurry of manufactured home community sales in the next few years, stating that demand was greater than supply. Others predict some community owners will sell to free up the capital they have tied up in chattel financing within their own community. A few brokers, mainly in the east and southeast, saw opportunity in foreclosed communities, short sales and consolidations, while others pointed to the high demand for high quality, non-distressed communities. Some forecasted enough improvement in the market that we could see the development of more manufactured home communities because the emerging multi-family rental market is saturated and the need for land lease communities will again be in high demand.

Investors pointed to several reasons why manufactured home communities will continue to be in high demand. Interest rates are favorable, multi-family properties are desirable, more households are renting, fewer households feel they must own a traditional house with land, manufactured homes are easy to own and maintain, stock market volatility, and low returns on cash reserves. A "new breed" of MHC investor is emerging, combining skilled property management and the use of technology to better manage the property. What keeps sellers awake at night? "Vacancies, compliance, skilled managers on-site" says one real estate investor-broker. What are the new realities of manufactured home community ownership? Better training and compensation for onsite managers, and compliance (think SAFE Act, Fair Housing and Dodd-Frank).

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What keeps owners from selling? When posed that questions, the answers included: 1) what would I do with the cash, 2) what would I do with my time, 3) how much would the taxes be, 4) a belief that prices will go up, 5) a feeling if they fill their vacancies it will be worth more. CAP rates are all over the map, from 10-12 CAP's in distressed markets to 7-CAPS for high quality communities in decent.

STATE DATA

The Manufactured Housing Institute recently released its most current data, which covers **January through July 2011**. Decreases were across the board with both single-section and multi-section homes shipments down compared with the same month last year.

Compared with 2010, this year has seen declines in all of the seven months so far. Industry shipments for the year-to-date stand at 26,828 homes compared with 30,659 homes in the previous year, a net decrease of 12.5%

The SAAR (Seasonally Adjusted Annual Rate) was 44,285 in July, down by 16.8% from the rate of 53,233 posted in June. The SAAR corrects for normal seasonal variations in shipments and projects annual shipments based on the current monthly total. Total floors shipped in July 2011 were 5,789, down 15.2% from the same month in 2010. Texas, New York and North Dakota showed the largest increase and Louisiana, South Carolina and Mississippi, showed the largest decreases, respectively.

The top ten states for manufactured home shipments in July are, in order, Texas, Louisiana, Florida, North Carolina, Alabama, Mississippi, Kentucky, Oklahoma, South Carolina and California.

Shipments are defined as homes built and shipped by a factory to a retailer, reflecting demand for homes by retailers and ultimately consumers. Production numbers reflect the amount of new manufactured homes built in a particular state by the factories in that state. They may be shipped to retailers or customers in their state or be shipped to other states.

RANKINGS YEAR-TO-DATE: California rates 15th in manufactured home shipments, Washington 28th, Oregon 24th and Idaho 32nd. The number of plants reporting production in July was 123 and the number of corporations was 45, both unchanged from June.

Manufactured homes represent 9.5% of all new single family home starts in the first 7 months of 2011.

MHI ANNUAL MEETING SET FOR PHOENIX

The Manufactured Housing Institute's 2011 Annual Meeting is October 2-4, 2011 in Phoenix, Arizona. Among the topics to be discussed: Financial Regulatory Implementation and Overhaul; SAFE Act Implementation; GSE Reform and Government's Role in Housing; Tax Reform and Energy Issues.

For more information visit the website www.manufacturedhousing.org

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