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COMMERCIAL REAL ESTATE BROKERS
The Manufactured Housing Community Network

The Northwest Report

Issue 63 February 2019

For Owners, Operators and Investors in Manufactured Housing Communities Nationwide

New Year - New Challenges & Opportunities

It is possible that 2019 could prove to be the year of the successful home retailer, the savvy manufactured home community seller, the shrewd community operator, or the Rent Control victim.

With homeownership at 64.4%, the seventh consecutive quarter of year-over-year improvement and the highest level of home ownership since 2014, the outlook for higher levels of home sales remains strong the for successful home retailer.

Manufactured homes represent 62% of all homes sold under $200,000 and 83% of all homes sold under $150,000 in the U.S. Yet surprisingly, 2 out of every 3 manufactured homes sold are placed in rural, versus urban areas. Manufactured housing represents 9% of the nation's single-family home inventory with 22-million American's living in a manufactured home. Even though manufactured home production and shipments have declined in the last 4 months, the industry today is producing nearly twice as many homes as it did in 2009.

Today, manufactured home sales represent a strong 13% of all new single-family homes sold in America. With unemployment at near record low levels the prospects for more single-family home purchases remains strong going into 2019 and 2020. If you know how to successfully retail our homes, either from a in-community sales operation or a freeway retail location, there is no reason why 2019 won't be a very good year for you.

If you are looking at selling a manufactured home community 2019 could be a very good year for you too. There is a great deal of small- and large-scale buyers out there and the inventory of communities for sale continues to lag behind demand. Specifically, very large communities or portfolios of multiple communities are in big demand.

Financing is strong for buyers, multiple tax structures are available to sellers, large operators have property management platforms that can handle several more communities under the current management umbrella without the need to add much additional manpower, and their over-all appetite for acquisitions is very, very strong.

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Seasoned, experienced, shrewd community operators are carefully but steadily adding more communities to their portfolios. Small rural communities, mid-sized suburban communities, or large urban communities are all in demand. Specifically, there has been a noted increase in the attractiveness of those communities of 100-sites or less in the small to mid-size Pacific Northwest towns where the economy is stable, rents are reasonable, local regulations are logical and the demand for affordable housing is strong. If you own a manufactured home community that fits this description Northwest Park Brokerage would like to hear from you.

Rent Control in Oregon

At the Capitol in Salem, Oregon SB 608 (Rent Control) is now headed to the Senate floor with a vote likely later this week or next. The Oregon House will hold a public hearing on **Monday February 18th at 8am** in Hearing Room 50, followed by a work session. SB 608 is a priority for the Oregon legislature and it is moving through the legislative process rapidly, meeting very little meaningful resistance by lawmakers. Community owners are encouraged to testify in person or send written testimony to the Senate Committee members ASAP. Manufactured Housing Communities of Oregon is encouraging you to attend the hearing even if you don't intend to testify. With even more anti-landlord legislators this year SB 608 will find plenty of support. However, your involvement is more than just defeating SB 608 – it is a "push back" to all of the hostile anti-landlord legislation that the legislature is considering.

The Legislature is not allowing any amendments to SB 608 - something rarely done in the Oregon Legislature. The Oregon trade association is working in the Oregon Senate on a separate legislative proposal that would allow community owners to increase rent beyond the 7% plus CPI increases allowed in SB 608 when faced with unforeseen capital improvements. This proposal only addresses manufactured home communities.

Manufactured home community owners and advocates testified before the Senate Committee on Monday February 4th. According to published reports, two Democratic Senators specifically commented at the end of the hearing that the testimony on manufactured homes and infrastructure was excellent. Hopefully this combined with the legislative proposal on additional increases for unforeseen capital improvements will be the beginning of a productive discussion on recouping infrastructure costs.

Democrats in Oregon are not wasting any time moving the bill along. With historic control of 66% of the Oregon Legislature they are determined to get Rent Control passed in Oregon. An onslaught of stories about skyrocketing rents and low vacancy rates in the Portland housing market appears to be what's fueling this discussion.

They have made this bill as palatable as possible to landlords with the 7% + CPI provision in order to get moderate Democratic Senators to vote in favor of the bill. Nevertheless, passage

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will surely be the beginning of a long and expensive battle between tenants and landlords in Oregon.

If SB 608 passes the House and Senate as expected it could become law as soon as the governor signs the bill, which could be as soon as mid-March.

Washington Legislation

In Washington State there is a slew of bad legislation working its way through the House and Senate.

First is HB 1582.00. This bill is essentially a full re-write of the RCW dealing with manufactured home communities. This is a set-up for rent control, forcing community rules to be approved by the tenants and the Attorney General's office. It would make recreational vehicles the same as manufactured homes, and it would grant them the same protections. It would also extend park closure notices to 5-years!

Second is SB 5761. This is a bill with a much narrower focus and it is believed to be far more dangerous to the MHC industry. It seeks to establish a rent control board at the state level to be administered by the Attorney General's office. Community owners would have to keep rent increases at no more than 1% above the CPI for all urban consumers for the U.S., not the more specific Seattle-Tacoma measure. Also, if a community owner wanted to charge back for capital expenditures, they would have to submit the plan for the work along with an estimate of the costs, the projected duration of the projects and how long the community owner feels they would need to recoup the capital expenditure. This bill is being heard by the Senate Housing Affordability and Sustainability Committee.

Washington community owners are urged to contact Manufactured Housing Communities of Washington immediately to see how they can get involved in challenging these onerous bills.

Access to Manufactured Home Financing

The national debate over manufactured home financing continues. Congress' discussion about the future of Fannie Mae and Freddie Mac's role in the housing finance system was started in the Senate with release of an outline for housing finance reform legislation by Senate Banking Committee Chairman Mike Crapo (R-ID).

In his press release, Chairman Crapo called on House and Senate colleagues, the Administration, and interested stakeholders to work together to enact a housing finance reform bill.

As this process gets underway, the Manufactured Housing Institute in Washington D. C. will continue to make the case that any government sponsored secondary market for housing finance must actively support financing for manufactured housing, which is the largest form of unsubsidized affordable homeownership in the country. Chairman Crapo has been a long-time supporter of manufactured housing, including the industries priority financing legislation The Preserving Access to Manufactured Housing Act.

The industries national association has been joined by housing and finance industry leaders calling for housing finance reform to include manufactured housing. Explicit language ensuring that the secondary market allows for and supports manufactured housing loan products is needed, so that manufactured home loans may compete on a level playing field absent of current barriers and prejudicial treatment. Improving the flow of capital to the manufactured housing sector will lower lenders' capital costs and draw more lenders to the market, increasing competition, lowering financing prices, and enabling more consumers to choose manufactured housing.

For years, the industry has been calling for Congress to include a specific requirement to serve the manufactured home loan market for both real property and chattel-secured loans in any housing finance reform legislation. Based on historical experience, the GSEs might neglect manufactured home lending without this kind of formal directive. In December, industry leaders submitted written testimony to the House Financial Services Committee about housing finance reform. The industry also met with Dr. Mark Calabria, Chief Economist to Vice President Mike Pence, who has been nominated by President Trump to be the Director of the Federal Housing Finance Agency, which regulates Fannie Mae and Freddie Mac.

As the housing finance reform debate continues, the Manufactured Housing Institute will build upon its strong advocacy with Congress and the Administration to ensure the government sponsored housing finance system facilitates access to capital for consumers seeking to purchase a quality and affordable manufactured home.

Interest Rate Outlook

Many prognosticators are taking Federal Reserve Board Chairman Jerome Powell's January 31st remarks to mean that the Fed won't raise interest rates anymore, but such interpretations are premature. Powell seems to be giving himself maximum room for flexibility by emphasizing data dependence and avoiding any mention of rate hikes. The global slowdown and trade tensions between the U.S. and China are creating enough uncertainty that he likely wants time to see whether the Fed should alter its rate-hike plan.

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The Fed will likely hold off until at least June, but don't rule out one or two more hikes later in 2019, numerous sources say. There are still many Federal Reserve Board members and staffers who think the Fed should raise rates to achieve a 3% federal funds rate to give the central bank a cushion against recession. Also, the labor market is extremely tight and wages are growing faster than anticipated, putting more pressure on rate control to offset the threat of inflation.

Financing a Manufactured Home Community

As of press time, the latest interest rates for manufactured housing community financing or refinancing on the West Coast remain at or near these rates, which continue to fluctuate and have increased slightly in the past few weeks.

Three-year fixed, 4.435%, five-year fixed, 4.435%, seven-year fixed, 4.495%, ten-year fixed, 4.595% and fifteen-year fixed at 4.555%. Rates can be found as high as 5.040% for 20-year fixed rate loans and underwriting requires completed and detailed historical operation data. Rate locks are available up to 90-days prior to close in most cases. The larger REIT's and investment funds are offering a variety of tax-saving and tax-deferred structures to sellers interested in something other than a 1031 tax-deferred "up leg" exchange or an all-out cash transaction.

Latest Statistics Confirm Declining Production

According to official statistics compiled on behalf of the U.S. Department of Housing and Urban Development (HUD) and verified by the Manufactured Housing Association for Regulatory Reform (MHARR), HUD Code manufactured home production declined again in December of 2018. Just released statistics indicate that HUD Code manufacturers produced 5,943 homes in December, a startling 18% decline from the 7,245 new HUD Code manufactured homes produced during December 2017.

On a cumulative basis industry production for 2018 totaled 96,555 HUD Code homes, a 3.9% increase over the 92,902 HUD Code homes produced in 2017.

The 4th consecutive month of declining industry production that begin in September 2018 has some industry observers concerned, but the continuing strength of the U.S. economy, as well as the quality and affordability of today's new HUD Code manufactured homes demonstrates that constraints on industry sales and production levels are caused primarily within barriers that exist in the post-production sector.

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POST PRODUCTION BARRIERS. The manufactured housing industry is constrained by exclusionary and discriminatory zoning, placement restrictions, inadequate consumer financing support from Fannie Mae, Freddie Mac and Ginnie Mae and the refusal of government regulators to embrace and enact the very remedies that already exist. The constraints are damaging to consumers seeking affordable housing solutions and the entire manufactured housing industry. The remedies include the "Duty to Serve" (DTS) underserved markets provision of the Housing and Economic Recovery Act of 2008 and the enhanced federal preemption of the Manufactured Housing Improvement Act of 2000 (MHIA). Consumers and the industry do not need any new laws. Everyone in the industry seems to agreed that what is needed is a willingness to aggressively advance and fully implement all aspects of the existing laws.

Without the full implementation of DTS and MHIA the manufactured housing industry will continue to struggle with post production obstacles that prohibit the industry to reach its full potential for all every type of American family wishing to achieve the American dream of home ownership.

Further examination of official industry statistics shows that the top ten shipment states from the beginning of the industry production rebound in August 2011 through December 2018 are: #1 Texas, #2 Louisiana, #3 Florida, #4 Alabama, #5 North Carolina, #6 Mississippi, #7 California, #8 Michigan, #9 Kentucky and #10 Tennessee.

What to Expect in 2019

There is no reason 2019 won't be another good year for the manufactured housing business, particularly on the West Coast. Manufactured homes fill the needs of a large and diverse housing market. First time buyers, baby boomers, empty nesters, retirees, immigrants, second home and season home buyers. A strong economy, low unemployment, and competitive interest rates 2019 will be a good year. The only thing missing is the development of new manufactured home communities in key areas. Will developers start developing again?

Upcoming Events

MHCW Annual Convention

May 21-22, 2019
Emerald Queen Casino
5700 Pacific Highway East
Fife, WA 98424

MHI Winter Meeting
February 18-20, 2019
The Driskill
Austin, TX

MHI Congress & Expo 2019
May 6-8, 2019
Hyatt Regency
New Orleans, LA

Annual Meeting2019
September 22-24, 2019
Westin Savannah
Savannah, GA

Engage the Best

There is no doubt about it, 2018 is definitely another great year for **Northwest Park Brokerage.** Without question, no brokerage firm in the Pacific Northwest or on the entire West Coast has a better grasp of market conditions than **Northwest Park Brokerage**. We have our pulse on the industry, we intimately understand the business, and we have relationships with buyers and sellers who are serious, qualified and motivated. Let us help you evaluate your community. **Give us a call at 206.652.4100.**

Nearly a BILLION 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