

Will Manufactured Housing Become Home of First Choice?

HISTORICALLY PLAGUED BY THE image of a tin box on wheels, **manufactured housing** finally is winning some of the mainstream acceptability that this housing segment has long sought.

Today, manufactured housing—also mistakenly known as **mobile homes**, a colloquial but technically inaccurate name sometimes used to describe the housing product (*Exhibit 1*)—

“As the turn of the century nears, the manufactured-housing industry is well positioned for continued growth. The aging of the baby-boom generation and their offspring will increase demand for manufactured housing Demographic trends show ongoing shifts of population to ... [geographic] areas where the industry has its strongest foothold Manufactured housing’s affordability, coupled with continuing improvements in stock quality and appearance, should prove highly attractive to a wide range of households—especially those of low and moderate incomes.”

—The Future of Manufactured Housing, Harvard University Joint Center for Housing Studies, February 1997

by **Donald S. Bradley**

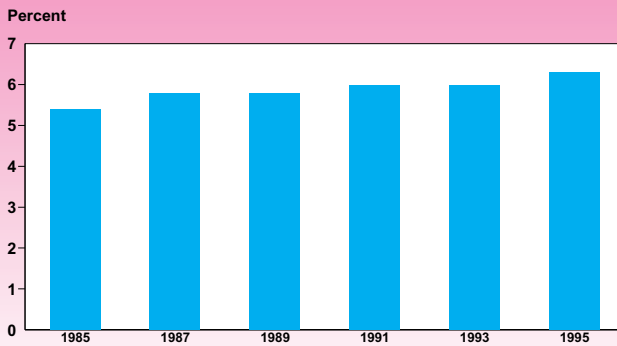
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EXHIBIT 1: Comparison of Housing Types by Feature

	Mobile Homes	Manufactured Housing	Site-Built		
			Modular Homes	Panelized Homes	Stick-Built
Construction Standard	No applicable standards, except local or state siting requirements Includes trailer homes	Built to national standards, enacted in 1976 and upgraded in 1994	Built to local or state standards	Built to local or state standards	Built to local or state standards
Where Built	Structure, interior finishes and appliances manufactured or installed in factory	Structure, interior finishes and appliances manufactured or installed in factory	Room modules (with electrical and plumbing systems sealed behind walls) manufactured in factory Supplemented by on-site construction	House components (wall panels, roof-truss and floor-joint systems) manufactured in factory Supplemented by on-site construction	Hand-constructed or assembled on-site
Mobility and Permanence	Transported to site on own wheels Wheels may or may not be removed	Transported to site on own wheels Wheels removed Unit seldom, if ever, moved	Transported to building site by trailer, lifted into place by crane	Transported to building site by trailer, lifted into place by crane	Construction materials delivered to site for assembly
Financing	Ineligible for conventional-mortgage financing Almost always financed with personal-property loan	Eligible for conventional-mortgage financing if sited on land owned by borrower or under long-term lease Otherwise, financed with personal-property loan	Eligible for conventional-mortgage financing	Eligible for conventional-mortgage financing	Eligible for conventional-mortgage financing
Construction Costs (excluding land)	Less than \$25 per square foot	Approximately \$25 per square foot	Approximately \$35 to \$50 per square foot	Approximately \$35 to \$50 per square foot	Approximately \$55 per square foot

Source: Freddie Mac

EXHIBIT 2: Manufactured-Housing Share



Note: Data are based on the housing stock that is occupied year round.
Source: American Housing Survey

The share of manufactured housing, one of the country's fastest-growing real estate segments, has risen 17 percent since 1985 to become 6.3 percent of the nation's residential stock in 1995.

serves as an increasingly important part of the U.S. housing inventory. More than 15.5 million people live in more than 7 million manufactured homes in the United States.

Manufactured housing accounted for 6.3 percent of the nation's housing stock in 1995, up from 5.4 percent in 1985, a 17 percent increase in 10 years (*Exhibit 2*). The housing product represented 32 percent of the new homes sold in 1996, adding another 363,411 of new manufactured units to the nation's housing stock.

With this type of **factory-built** home costing less than half of a **site-built** counterpart, the manufactured-housing alternative is proving particularly attractive to low- and moderate-income families. At the same time, manufactured housing is expanding its appeal to a much

broader homeownership audience.

A better-quality product, an expanded customer base and more accessible financing are among the factors that are leading more families to embrace this nontraditional housing choice.

Looking ahead, manufactured housing shows no signs of relinquishing its front-runner status as a housing-industry growth sector, a point repeatedly underscored in the Joint Center for Housing Studies report.

Not What It Used to Be

Even now, manufactured-housing units still are built in factories, displayed in sales showrooms and transported to permanent home sites. Yet, today's product differs considerably from its origins: a travel trailer and substandard temporary housing. After several decades of concentrated effort, manufactured homes are approaching parity with site-built housing in terms of size, design and construction quality.

In a throwback to its more ambulatory days, a manufactured home continues to include a chassis and wheels as part of its

construction, as required by federal regulation. Even so, the original destination and the final destination of a manufactured home are likely one and the same: fewer than 2 percent of these homes ever move to another location. The larger, multisection units are virtually never moved.

The necessity of moving from factory to showroom to building site continues to shape the basic form of the manufactured home. In most states, the dimensions of a single-section unit are restricted to 18 feet wide—to fit within a lane of traffic—and 80 feet long—to allow for a reasonable turning radius. To overcome such limitations, manufacturers increasingly are joining together two or three modules to create larger finished homes. By 1996, 52 percent of all manufactured-housing installations consisted of at least two modules, up from 35 percent 10 years earlier. Further, the median size of a unit has grown to 1,355 square feet from 1,035 square feet during the same period. Now that many states are starting to let even larger units travel their highways during nonrush hours, there is plenty of opportunity for the median-sized home to grow.

Just as manufactured housing has thrown off size constraints, so, too, has it broken free from design stereotypes. On the outside, newer multisection homes are almost indistinguishable from site-built homes. The

units are constructed with conventional siding and materials and may feature higher roof pitches now that some units are shipped with hinged roofs.

What's more, the first two-story units have begun rolling off assembly lines and onto the highways, further blurring the distinction between factory-built and site-built housing.

On the inside, manufactured homes have adopted many of the conventions of site-built housing. The addition of a full range of kitchen appliances, carpeting, wood molding, air conditioning and other amenities once rarely found in a manufactured unit now enables this residential choice to compete successfully with most lower-end and many middle-range homes.

Along with improvements in the units themselves has come a general upgrading in the developments where manufactured homes are situated. Yesterday's trailer park has become today's planned community. Many of the newer manufactured-housing parks and subdivisions provide landscaped grounds and recreational facilities such as community pools, exercise rooms, tennis courts and golf courses that are comparable to those generally associated with conventional housing complexes.

These makeovers have deepened consumer demand and reduced long-standing opposition to the presence of manufactured homes in traditional neighbor-

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hoods. Less clear is how much these improvements in quality will affect the long-term durability and price appreciation of manufactured housing. Factory-built homes constructed before 1980 often were viewed as throw-away housing with limited resale value; the useful life of a unit typically rarely outlasted a decade. Given the rapid deterioration of the pre-1980 units, this older stock has dwindled to less than 40 percent of the country's manufactured-housing inventory.

Insufficient time has passed to evaluate the durability and appreciation characteristics of the newer factory-built homes. One recent report, though, speculates that the life expectancy of manufactured housing built according to federal safety standards—known as the HUD code—is four to five decades.

When well built and carefully maintained, these units may well last as long as site-built housing. If so, the equity build-up and price-appreciation gap between newer manufactured homes and other housing likewise might disappear, a 1993 study by the Manufactured Housing Research Project at the University of Michigan concluded.

Getting Past the Front Door

Substantive improvements in size, design and quality of manufactured housing have not come at the expense of affordability. Excluding the cost of land, the 1995 sales price of a manufactured house averaged \$36,000, compared with \$119,000 for a site-built house. The bulk purchase of materials, standardized factory production and design ingenuity all have worked to keep structural costs low.

Although manufactured housing is purchased or rented by households of all types, the affordability factor may explain why increasing numbers of low- and moderate-income households are choosing this housing type as their starter or retirement homes. Young families—those with household heads under age 25—accounted for more than 12 percent of manufactured-housing sales during 1994 and 1995, compared with less than 5 percent for other housing types, according to the biennial American Housing Survey. First-

EXHIBIT 3: 1995 Manufactured-Housing Financing Trends

Total Loan Debt Outstanding	\$31 billion
Average Loan Size	\$24,511
Average Minimum Down Payment	
New Single-Section Unit	14.9%
New Multisection Unit	14.8%
Average Loan Term	
New Single-Section Unit	13 years
New Multisection Unit	15.5 years
Average 60-Day Delinquency Rate	2.5%

Note: Data are based on manufactured-housing lending done through consumer installment loans.

Source: Manufactured Housing Institute

time buyers purchased nearly 45 percent of the manufactured homes sold in 1994 and 1995 but only 39 percent of site-built housing sold those years. At the retirement end of the spectrum, more than 15 percent of the manufactured homes sold in 1994 and 1995 were purchased by those over age 60, while only 10 percent of other housing went to older buyers.

Overcoming Financing Hurdles

Financing represents the one area where the cost born by the manufactured-housing consumer has run consistently higher than for other homebuyers. Until recently, only a handful of specialized lending firms catered to manufactured housing, depriving this housing segment of many of the beneficial marketplace disciplines imposed by competition. Two of the first manufactured-housing lenders, the consumer finance divisions of Ford Motor Co. and General

Motors Corp., remain major players today, but more lenders are entering the field. In 1996, the largest manufactured lenders included Green Tree Financial Corp., Bank of America, Associates First Capital, CIT Group and Oakwood Acceptance Corp.

Largely due to the migration of this small cadre of lenders from the automobile and recreational-vehicle finance areas, a personal-property loan that is secured by the unit serves as the main financing instrument available to these homebuyers. In fact, a manufactured home and the land it occupies most often are financed with separate loans, even though approximately one-half of manufactured-housing owners buy, rather than rent, their lots. A mere 10 percent of all manufactured-housing transactions are financed with mortgages secured by the underlying property.

On average, the interest rate on a personal-property loan for a manufactured home or home site is about 3 percentage points higher than it is on a typical 15-year, fixed-rate mortgage.

However, personal-property loans characteristically involve less stringent loan-approval rules. For example, high debt-to-income ratios or a limited amount of cash on hand rarely become impediments to obtaining this financing. In addition, manufactured-housing lenders can make nearly instant

loan decisions because of the rapid loan-processing procedures common to that credit sector.

Except for lower incomes, the profile of manufactured-home buyers seeking financing does not appear to differ greatly from site-built loan borrowers, results of an annual survey conducted by the Manufactured Housing Institute suggest. The majority of manufactured-housing borrowers are married, aged 35 to 54, employed in the same job for five to 10 years and earn annual incomes of \$25,000 to \$50,000.

The fast-growing pace of the manufactured-housing finance sector comes across clearly in the Manufactured Housing Institute survey. In 1995, the outstanding amount of consumer installment debt for manufactured housing totaled nearly \$31 billion dollars, up 9.7 percent over the previous year (*Exhibit 3*).

Although manufactured-housing lenders continue to retain the majority of the loans they originate, they are selling a growing number to other investors. Consequently, their portfolio holdings constituted 61 percent of their business in 1995, down from 70 percent in 1994.

A secondary market is emerging that can help pump more capital into manufactured-housing financing. This fairly well-defined and growing private market packages manufactured-home sales-contract **receivables** into securities and sells them to investors. Twenty-four percent of

the manufacturers, dealers and lenders surveyed by the Manufactured Housing Institute reported that they are actively participating in this market.

Issuers in the asset-backed securities market have traded approximately \$17 billion in bonds collateralized by manufactured-housing properties between this market's 1987 inception and 1995. The first public transaction occurred in 1987 when Green Tree Financial issued \$71.5 million of AA-rated passthrough certificates. More than \$4 billion in these asset-backed securities was issued in 1995 alone, representing more than 5 percent of all issuances done that year.

According to a recent report by Standard & Poor's Ratings Services, investor interest has increased in manufactured-housing bonds for several reasons, including:

- *Lower Loan Losses.*

Improved underwriting and servicing throughout the manufactured-housing industry has resulted in a better loan-loss experience. For example, Green Tree Financial, one of the largest manufactured-housing lenders, saw loan losses from repossessed manufactured homes decrease by 24 percent for the three years spanning 1993 to 1996.

- *Lower Prepayment Risk.* The average lower-loan size of nearly \$25,000 makes these loans less vulnerable to prepayment than the average size of about

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\$100,000 for a conventional residential mortgage.

- *REMIC Eligibility.*

Manufactured-housing loans qualify as assets for real estate mortgage investment conduits (REMICs), attracting a wider array of investors seeking multiclass securities that differ by maturity and other features.

The Government National Mortgage Association (Ginnie Mae) also has organized a secondary market for personal-property loans used to finance manufactured housing. Only manufactured-home loans guaranteed by the Department of Veterans Affairs or insured under the Federal Housing Administration's Title I program are eligible for Ginnie Mae securitization.

Certain real estate loans that involve manufactured housing already are eligible for purchase by Freddie Mac. Typically, these

purchases are restricted to mortgages on units that comply with the HUD construction code, provided the homes are owned, taxed and titled as real estate.

Moreover, Freddie Mac is examining the pros and cons of participating in the market for personal-property home loans backed by manufactured housing. An active secondary market requires greater knowledge of several key issues, including how manufactured-housing resale values compare with site-built products and whether manufactured housing can sustain its value over time.

Outgrowing the Tin Can

Leaving the tin-can-trailer image behind, manufactured housing is becoming a viable housing alternative. Manufactured housing's traditional base—rural, elderly, first-time and lower-income buyers—continues to grow, and further developments in the financing arena should help this expansion along.

Widespread acceptability will help manufactured housing win over mainstream homebuying constituencies impressed with the quality of the units, as well as the broader lending community interested primarily in financing real homes with real mortgages. **SMM**