FROM STIGMA TO HOUSING FIX

The Evolution of Manufactured Homes

The latest manufactured homes, such as Next Step's Energy Star "Cottage," are a quantum leap from the 1960s trailers that gave this housing stock a sordid reputation.

By Loren Berlin

LIZ WOOD WANTED TO BUY A HOUSE. IT WAS 2006, SHE HAD BEEN RENTING FOR A DECADE, AND HER MONTHLY PAYMENTS WERE GETTING HIGH. She was 43 and steadily employed, earning $34,000 annually plus benefits as a family educator. She didn't want anything fancy, just a place where she could "gather love and bring stability." She would stay within her means.

Nonetheless, the math was tricky. Wood lives in Duvall, Washington, a town of roughly 7,500 in the foothills of the Cascade Mountains. Steeped in lush forest, Duvall is about 30 miles from Seattle and a mere eight miles from the City of Redmond, the headquarters for Microsoft. The median income in Duvall is nearly twice that of the state of Washington, and homes in this area are expensive. In 2010, the median value of owner-occupied homes in Duvall was $373,500, compared to $262,100 for the state, according to the U.S. Census Bureau.

With few options, Wood eventually decided on a used factory-built home (also known as manufactured housing) for $55,000 in Duvall Riverside Village, a four-acre community of 25 manufactured homes in the middle of downtown Duvall. "It's amazing here," she says. "I live on riverfront property, so when I walk out my door I see water, pine trees, and a walking trail that goes from my house to the next town. I wake up in the morning hearing birds. I know all my neighbors; I'm connected to my community. I'm a block from the police station. I feel safe."

But it was still difficult. Wood owned her house, but not the land on which it sits. Instead, she rented the plot for $450 a month, plus water and utilities, as did the other residents of Duvall Riverside Village. As a result, Wood and her neighbors remained largely at the mercy of the property owner, their landlord, and forfeited much of the autonomy and security associated with more traditional home ownership models.

Their landlord prohibited garages, leaving residents limited storage options. He charged them $25 a month per additional car or adult beyond those registered at the time of move-in.

Liz Wood is president of Duvall Riverside Village in Duvall, Washington—a resident-owned manufactured housing community between an artsy downtown Main Street and the Snoqualmie River. Credit: ROC USA PHOTO / Mike Bullard

He charged $5 a month for every pet and required dogs to be leashed at all times. There was a $5 monthly fee for every extra half-cord of firewood, which Wood needed to fuel her stove. Though he employed a groundskeeper, he didn't install outdoor lights, nor did he maintain the community roads, which were pocked and cracked.

Today's manufactured homes are robust, efficient, and inviting, with the potential to help alleviate the nation's shortage of safe, affordable housing.

In 2012, Wood and her neighbors received a written notice that the owner was selling the land. Unlike many owners, who prefer to sell their properties to a developer, this landlord was open to selling to residents. He had agreed to host a meeting between the tenants, a real estate broker, and the Northwest Cooperative Development Center, a nonprofit that supports cooperatives. The parties discussed the possibility of establishing a nonprofit, resident-owned cooperative to purchase the property. In doing so, they would conserve the land for manufactured housing, continue living there as a community, and collectively manage it to guarantee a safe, affordable, high-quality experience.

The residents voted to go for it. The landlord had two demands. He wanted fair market

David Bissaillion tinkers in the greenhouse addition of his home in Wheel Estates, a resident-owned manufactured housing community in North Adams, Massachusetts. Credit: ROC USA PHOTO / Mike Bullard

value, and he wanted to complete the sale by the end of the year. It was already August. They had five months.

In addition to the collaboration with Northwest Cooperative Development Center, the residents also began working with ROC USA, a New Hampshire–based nonprofit organization that offers residents of manufactured housing communities a mix of technical assistance and affordable financing to purchase their rented land when it becomes available for sale. Since its establishment in 2008, ROC USA has successfully facilitated 80 of these transactions nationally and secured more than $175 million in financing for them.

ROC USA works with a network of eight regional affiliates, including the Northwest Cooperative Development Center. In Duvall, the nonprofits worked together with the residents to assess the economics of a possible deal and to confirm that the community was a good fit for resident ownership. Next, the organizations helped the residents to hire a third-party lawyer and establish their cooperative, which would operate as a democracy with residents elected into leadership positions by fellow residents. ROC USA assisted the residents to hire an independent engineer and conduct due diligence of the property; secure financing through ROC USA's lending subsidiary, ROC USA Capital, to purchase the property and undertake critical repairs; and organize the real estate transfer.

On December 27 of that year, the newly formed cooperative bought the Duvall Riverside Village with $1.3 million in purchase financing from ROC USA Capital, granting Wood and her fellow home owners control over their living arrangements, and permanently preserving 25 affordable homes in a town where such housing stock is scarce.

The residents continue to pay $450 a month to rent the land, but now they vote to determine community rules, and use the rent to make improvements and to pay the community's mortgage, taxes, and expenses.

"Now, you can have a garage if you want," explains Wood, who is president of the Duvall residents' cooperative and a ROC USA board member. "And we spent $35,000 to fix the roads. We don't have to live in fear anymore, so people are willing to invest in their homes. We have annual meetings to vote in projects. We can lower the monthly rent if we are over-budgeting for things we don't need. The bottom line is that we are in control of our own destiny."

Upon completing the sale, ROC USA and the Northwest Cooperative Development Center have continued providing the residents with technical support to ensure smooth operations.

"If they had just lent us the money and said, 'these are the guidelines, here's what you need to do, have at it,' we would have failed," explains Wood. "But they are an ongoing resource. They help us with tough situations, or when we don't know how to do something legally. The goal is for us to become independent and to be able to run our community like a business. Pay your bills, and your house can stay where it is. Period. Forever."

Benefits

Across the United States, more than 18 million Americans live in factory-built homes, which represent 5 percent of the nation's housing stock in metro areas, and 15 percent in rural communities. They range significantly in quality. Roughly 25 percent of today's manufactured housing stock is the stereotyped, rickety trailers of the 1960s and early 1970s, produced before the federal government introduced quality controls in 1976. The remaining 75 percent complies with the federal standards, and includes charming, energy-efficient homes, indistinguishable to the untrained eye from their site-built counterparts. Though manufactured homes have long been cast aside as a housing choice of last resort, today's models are robust, efficient, and inviting, with the potential to help alleviate the nation's shortage of safe, affordable housing.

Modern manufactured homes cost approximately half as much as their site-built counterparts and can be built five times faster, making them a genuinely viable option for low-income consumers. The production process is less wasteful, and models that comply with the federal government's Energy Star standards offer home owners meaningful energy savings. And they are durable. Whereas manufactured homes built prior to the 1976 regulations were made to be portable, like recreational vehicles, modern models are built with stronger materials and designed to be permanent. Today's manufactured homes can sit on any foundation that would otherwise accommodate a site-built structure, creating the flexibility to use the housing in a wide range of geographies and environments.

"The manufactured housing stock is a critical component of the nation's affordable housing," says George McCarthy, president and CEO of the Lincoln Institute of Land Policy. "It easily outnumbers our subsidized stock two or three times in almost every market."

Manufactured homes are cheaper to produce than site-built houses because of the manufacturing process. As Andrea Levere, president of the Corporation for Enterprise Development, writes in the *Huffington Post*, the "term 'manufactured housing' itself has less to do with quality and more to do with the production process, which is a derivative of Ford's assembly lines. This model allows manufactured homes to be built in a more controlled work environment, translating into predictable costs, increased efficiencies, and reduced waste" (Levere 2013).

In 2013, a new, energy-efficient manufactured home cost $64,000, compared to $324,500 for a new, site-built one, according to the U.S. Census, though the price for the latter includes the land. Even after stripping out the land costs, manufactured homes are still significantly less expensive, averaging $44 per square foot, versus $94 per square foot for site-built homes. And they are unsubsidized, which is a boon given the extremely short supply of subsidized housing compared to demand. Currently, only one in four income-qualified families receives a housing subsidy according to the Bipartisan Policy Commission, leaving the remaining 75 percent in need of an affordable, unsubsidized alternative. By helping to fill that gap, manufactured housing can relieve some of the demand for subsidized housing that state and federal governments are struggling to supply in the face of shrinking budgets. "The majority of families who live in manufactured housing would qualify for subsidized housing, but instead they choose this less expensive and unsubsidized option," says McCarthy.

"During the immediate aftermath of Hurricane Sandy, recovery workers got 17 manufactured homes on the ground in New Jersey within weeks of the hurricane—before most organizations even had a housing plan," says McCarthy.

The stock is also very versatile, argues McCarthy, who cites its role in housing people during the immediate aftermath of Hurricane Sandy. "Recovery workers got 17 manufactured homes on the ground in New Jersey within weeks of the hurricane—permanent homes for displaced renters, not the problematic 'Katrina trailers.' And they did it before most organizations even had a housing plan. This speaks to the efficiency and nimbleness of building manufactured housing. The production times are about 80 percent shorter than for site-built homes, making them the best housing option for disaster response."

Nevertheless, manufactured housing often gets a bad rap, due largely to the widespread misperception that today's models are the same as the earliest generations of mobile homes built prior to the introduction of quality control

standards by the U.S. Department of Housing and Urban Development in 1976. Today, there are roughly 2 million of these pre-1976 homes; many are barely hanging together and house the nation's most vulnerable populations, including the elderly and disabled. Though the pre-1976 stock is virtually unrelated to its present-day counterpart, these older, dilapidated dwellings dominate the general public perception of manufactured homes in the United States.

The housing stock's reputation is further diminished by the vulnerabilities facing home owners who do not own the land on which they live. Roughly 3 million people live in one of the nation's 50,000 manufactured housing communities, while another 3 million rent on private property. There are manufactured housing communities in every state in the country. Like Duvall Riverside Village, many of them are on prime real estate, and the landowners routinely receive purchase offers from developers.

Advocates working to improve the manufactured home ownership experience, and to promote the stock's viability as affordable housing, are focusing on three critical areas of innovation: conserving mobile-home parks; replacing pre-1976 units with modern, energy-efficient homes; and increasing access to affordable financing for potential buyers, which is virtually unavailable in the current market and is imperative to building equity and preserving a home's resale value.

Conserving Manufactured Housing Communities

The conversion of Duvall Riverside Village from a privately owned mobile home community to a resident-owned cooperative is not common. For every community available for purchase that is successfully preserved as affordable housing, there are many more that end up sold for redevelopment, displacing residents who may lack good alternatives.

"It's not as simple as just moving the home," says Ishbel Dickens, president of the National Manufactured Home Owners Association. "First, there's the question of whether the home can even be moved. It may be too old or unstable to survive a move. And even if it can be moved, it's expensive to do so, and very hard to find a space in another community. In most instances, when a park closes, the residents are probably going to lose the home and all their equity in it. In all likelihood, they will never own a home again. They'll likely end up on a wait list for subsidized housing, or may even end up homeless."

To some degree, it's an accident of history that so many of today's mobile home parks occupy plots of coveted real estate, says Paul Bradley, president of ROC USA. As he explains it, in the late 1950s and 1960s, Americans began to embrace transportable trailers and campers, in part because of a cultural shift toward outdoor recreation, and in part because post–World War II factories began producing them to utilize excess manufacturing capacity, making them widely available and affordable. As the units grew in popularity, they transitioned from temporary structures to permanent ones, and people began adding makeshift carports and sunrooms. At the time, urban planners accepted the evolution toward permanency. As they saw it, most of the trailers were on land that no one else was using in outer-circle developments. Why not let these campers stay for awhile, until the cities expanded to meet them, at which point the land would be redeveloped?

"These original communities were built with a plan to close them," says Bradley. "Back then, no one contemplated the full implications of creating a housing stock for which home owners lacked control of the underlying land. No one anticipated that these communities would be full of low- and moderate-income home owners who spent their own money to buy these homes and had few alternatives. And that's what we are still grappling with today. That lack of control of the land means that home owners live with a deep sense of insecurity and the feeling that it's irrational to make investments in their properties because they won't get it back. What's the implication for home owners who cannot rationally argue for investing in their home? What does that mean for the housing stock? For neighborhoods?"

Short-sighted land use policies are not the only challenge to preserving manufactured housing communities. An equally onerous obstacle is the lack of legal protections afforded to residents. In 34 states and the District of Columbia, the landowner can sell the property without giving residents the opportunity to purchase it. In fact, in most states, the landowner doesn't have to notify residents that the community is for sale; the landowner can wait until the property has been sold to inform residents of the transaction, suddenly leaving them in a tenuous position. Even the 16 states that require the owner of a manufactured housing community to provide residents advance notice of a sale do not necessarily afford tenants the necessary protections. "In most of the states with advance notice, there are so many limitations on the notice requirements that it is rarely of any use to residents," says Carolyn Carter, director of advocacy at the National Consumer Law Center.

To better protect residents, advocates support legislative reforms to state laws and tax incentives for landowners who sell to residents. The most effective of these strategies are state laws requiring a landowner to give residents both advance notice of the sale—ideally 60 days—and the opportunity to purchase the property, argues Carter. According to her, there are six states with laws that "work on the ground and provide effective opportunities for residents to purchase their communities," including New Hampshire, Massachusetts, Rhode Island, Florida, Vermont, and Delaware. She says Oregon passed promising legislation in January 2015. "In those states with effective notice and opportunity to purchase laws, resident ownership takes off," Carter explains. Roughly 46 percent of the 80 communities that ROC USA supports are in either New Hampshire or Massachusetts—two small states with some of the nation's strongest resident protections. There are an additional 89 resident-owned cooperatives in New Hampshire that predate ROC USA's launch.

To understand the value of strong consumer laws for residents, consider the story of Ryder Woods, a 174-unit mobile home park in Milford, Connecticut, 11 miles south of New Haven, just off a major thoroughfare. Connecticut is one of 19 states that either offer tax incentives or provide residents "some" protections when a community is sold, but also contain "significant gaps," according to Carter.

A resident of Prairie Lake Estates in Kenosha, Wisconsin, paddles along the shore of this resident-owned community on Lake Michigan. Credit: ROC USA PHOTO / Mike Bullard

In 1998, Ryder Woods' landowner sold the property to developers. He informed the residents via eviction notices, in violation of state laws requiring him both to give them advance notice of the pending sale and to provide them the right of first refusal to purchase the land. Ryder Woods had an active home owners association, and very quickly they organized protests and petitions and lobbied the state legislature to reverse the sale. Eventually, the local news picked up their story, at which point a Milford-based attorney volunteered her services to help them. As she dug into the case, she realized that the law was on the side of the residents and that the community needed more legal support than she alone could offer. She enlisted help from a friend and fellow attorney—a partner at a prominent, Hartford-based firm—who agreed to take the case pro bono and assigned it a team of attorneys. The case ended up going to trial, eventually making its way to the state's highest court. Uninterested in the unfolding legal headache, the original buyer resold the property to a second developer.

Four years after the original sale, the courts ruled in favor of the residents. In an unprecedented deal, and as required as part of the settlement, the second developer purchased a new piece of land a mile from the original parcel and completely rebuilt the community there. The developer purchased 174 new mobile homes and

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sold them to the residents at significantly reduced prices with more favorable mortgage terms than any available in the conventional financing market. He built a community center and a pond, complete with swans. And, as required by their agreement, he provided the residents the opportunity to form a cooperative and buy the land, which they did in 2009 with $5.4 million in purchase financing from ROC USA Capital. They closed on their purchase in the offices of the Hartford firm, which had continued to volunteer its services to the residents through the sale's completion. Today, there is a Walmart on the land that housed the original Ryder Woods community.

"Sometimes, when we look back, we think it was crazy. We chartered a bus, went to Hartford, spoke to the legislature, and just fought it. We stuck together and won against two big-time, billion-dollar developers," explains Lynn Nugent, 68, a part-time merchandise associate at Sears, and one of the residents who helped organize the campaign, along with her husband, a retired locksmith. "Now I always say, 'Somebody else used to own us, and now we own ourselves.'"

Improving Access to Quality, Affordable Manufactured Homes

Unlike the residents of Ryder Woods, many owners of manufactured homes struggle to secure a quality unit with affordable financing. Here again, legislation is a primary culprit. Under federal law, manufactured homes are considered personal property, like a car or a boat, opposed to the real property designation assigned to traditional homes. Consequently, buyers cannot access mortgage loans. Instead, financing is available in the form of personal "chattel" loans. More expensive than mortgage loans, they average an additional 50 to 500 basis points and provide fewer consumer protections. More than 70 percent of purchase loans for manufactured homes are these higher-cost loans, which are considered a proxy for subprime products.

"This second-tier status is one of the biggest limitations to increasing the stock of permanently affordable manufactured homes," says McCarthy. "It makes financing the homes more challenging and expensive than it should be, and it diminishes the homes' wealth-building potential because it reduces effective demand for existing units."

While the dream fix would be to change federal titling laws, such revisions are not forthcoming. Instead, Next Step, a Kentucky-based nonprofit organization, has established "Manufactured Housing Done Right (MHDR)." This innovative strategy works to make high-quality, affordable manufactured homes—and financing—available to low- and moderate-income consumers through a combination of energy-efficient homes, home buyer education, and affordable financing. Here's how it works.

First, Next Step gives low-income buyers access to high-quality manufactured homes. The organization created a portfolio of models that are both robust and affordable. Each Next Step home meets or exceeds Energy Star standards, reducing utility costs for the home owner and shrinking the environmental footprint. According to Next Step, testing has shown these homes to be 30 percent more efficient than a baseline code home and 10 to 15 percent more efficient than a baseline Energy Star home. On average, this results in $1,800 in energy savings each year for every pre-1976 mobile home replacement and $360 each year for every new home placement.

Additionally, Next Step homes are "value engineered to ensure affordability while upholding quality standards." They are installed on permanent foundations, providing for greater structural support against wind and reducing settling issues. The homes contain high-quality flooring and insulation, which helps to increase durability and reduce energy costs. And because water is the number one problem for foundations, Next Step homes contain additional safeguards to protect against moisture.

Improving Access to Sustainable Financing

Next Step also makes sure the home buyers can secure sustainable, affordable financing. "One of the problems facing the industry is that the capital markets don't participate in a big way," explains Stacey Epperson, CEO of Next Step. "The secondary market is not there in any meaningful way, so there are very few lenders in this marketplace and very few options for buyers. Our solution is to prepare our borrowers for home ownership, and then bring them good loans."

Next Step works with a mix of nonprofit and for-profit lenders, vetted by the organization, to provide safe, reasonably priced financing. In return, Next Step reduces the lenders' risk. The homes are designed to meet the lenders' requirements, and the home buyers receive comprehensive financial education so that they are equipped to succeed as home buyers. Consequently, Next Step home buyers not only secure a better initial mortgage, but also have the capacity to build equity and obtain a good resale price for the home should they decide to sell it one day.

Importantly, each Next Step home is placed on a permanent foundation in order to qualify the home owner for certain government-backed mortgage programs, which are less expensive than a chattel product. Next Step estimates it has saved its 173 home buyers approximately $16.1 million in interest payments.

"Right now, close to 75 percent of all financing for manufactured housing is going out as chattel. But 70 percent of new manufactured homes are going out on private land where, in many cases, the home could be put on a permanent foundation, and the owner could get a mortgage with a lower interest rate and a longer term," says Epperson.

The MHDR model is innovative in part because it is scalable. Next Step trains and relies on a membership network of nonprofit organizations to implement the model in their respective communities. Next Step sells the homes to members at competitive prices, and then member organizations oversee the process of identifying and educating buyers, assisting them to secure the loan, and managing the installation.

"The way the industry works, there has never really been a way for a nonprofit to buy a manufactured home at wholesale prices. That's what we've engineered, and that's what makes these homes a lot more affordable than if the nonprofit or home owner tried to buy them on their own," explains Kevin Clayton, president and CEO of Clayton Homes, one of the nation's largest producers of manufactured housing, and one of Next Step's long-time supporters.

"The Next Step program works because it sets people up for success," says Clayton. "Next Step takes them through home ownership counseling, and supports home owners if they have a hardship down the road. They get to buy the house for a lot less than they otherwise could have, build equity in the home, and have a low monthly loan payment and energy costs."

Cyndee Curtis, a Next Step home owner, agrees. Curtis was 27, single, and pregnant when she purchased a used, 1971 Fleetwood mobile home for $5,000 in 2001. She put it on the lot she owned just outside the town of Great Falls, Montana.

"I didn't have money, I didn't have a degree, and I didn't have choices," says Curtis. "The old steel septic tank was a ticking time bomb, with rust holes. The carpet was worn through, the linoleum underneath had burn spots on it, and the ceiling leaked where an addition had been added. Every year, I would buy construction books, go to Home Depot, and ask how to fix that leak. And every year I ended up there by myself, trying to fix it. There was mold on the doorway from that leak, and I had a newborn in there."

In 2005, Curtis went back to school for two years, obtained her nursing degree, and began working as a licensed practical nurse, earning $28,500 a year. "I figured now I am earning a livable wage and can explore my options," says the single mother of two. "I wanted something that my kids could grow up in and be proud of, and to make the most of owning the lot I lived on."

But her credit was poor, and eventually she ended up at NeighborWorks Montana, a nonprofit Next Step Network member that told her about the Next Step program. Over the next two and a half years, Curtis worked with the staff of NeighborWorks Montana to repair her credit. With their assistance, she secured a mortgage and purchased a Next Step home for $102,000, which included not only the house but also the removal, disposal, and replacement of her old septic system. Because the Next Step home is on a permanent foundation that meets certain qualifications—and because of Curtis's improved credit history, income, and geography—she qualified for a mortgage from the U.S. Department of Agriculture's Rural Development program, which was significantly less expensive than the more common chattel products. Additionally, whereas Curtis's previous mobile home was titled like a car, her Next Step home is deeded like a site-built house. Consequently, a future buyer will also be eligible to apply for a traditional mortgage.

Curtis says her Next Step home has provided her significant energy savings. "I have 400 square feet more now than I had previously. I went from having one bathroom to two. And still both my gas and power bills have been cut by about two-thirds."

She continues. "My house is a thousand percent better than what I lived in before. If a person goes inside my house, they can't tell it's a manufactured home. It has nice doorways, nice walls that are textured. It looks like any new home you would want to live in."

"Sometimes people think they have to suffer with poor housing conditions. I know how it is, and I want them to know that if you put in some hard work, you can make a difference for yourself and your family."

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