May 2020

Manufactured Housing Landscape 2020

As the housing affordability crisis has deepened, manufactured housing is garnering more interest as an important source of affordable housing, particularly among rural and low-income households. In addition, it costs significantly less and takes less time to build a new manufactured home than to build a new site-built home of comparable size. As a result, manufactured housing has the potential to be an important tool in adding new homes to housing supply despite the likely slowdown in the shipments of new homes due to recent elevated levels of job loss.

Factory Built Homes Subject to HUD Code

Manufactured housing refers to housing built in a factory after June 15, 1976 and constructed in accordance with the U.S. Department of Housing and Urban Development's Manufactured Home Construction and Safety Standards code (HUD Code), which sets minimum standards for size and quality of construction. Factory-built manufactured homes that meet these standards post a HUD label and are subject to federal regulations that supersede local building regulations. Homes built before this date are considered mobile homes and are typically of a lesser quality construction.

It is important to note that recreational vehicles, park trailers, and park model homes are built to different standards and are not considered manufactured homes. In addition, although modular homes are often built in the same facilities as manufactured homes, they are not considered manufactured housing under the formal definition because they are built to local standards in the state where the home will ultimately be located, rather than to HUD standards.

Many Manufactured Homes Located in Rural Areas

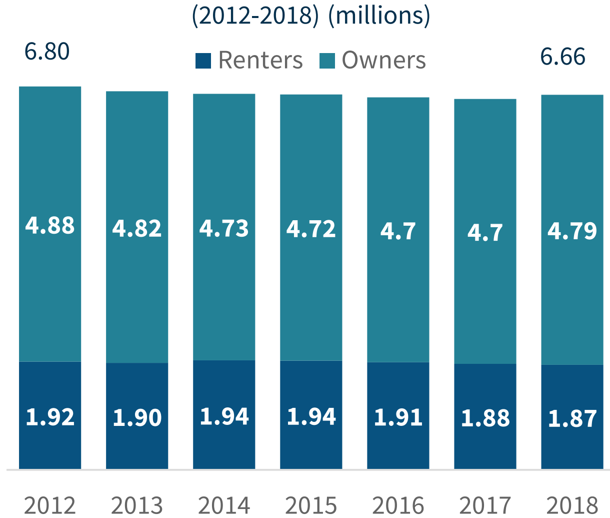
Manufactured housing represents 6.3% of the nation's housing stock but is a higher share of housing stock in rural areas. While site-built single-family homes represent about 80% of housing stock in rural areas, manufactured housing represents about 14% of stock. Apartments trail a distant third, representing only about 6% of the stock in rural areas.

Occupied Units Declining

An estimated 18 million Americans live in manufactured homes. While most manufactured homes are owned, with 4.8 million homes occupied by owner households, there are also 1.9 million units occupied by renter households. In 2018, there were another 680,000 homes classified for seasonal or recreational use and another 860,000 units which were vacant.

The number of occupied manufactured homes fell slightly over the past six years, by about 140,000 households. This is concerning because there is a dearth of affordable housing in the U.S. today, and manufactured homes tend to be occupied by lower-income households.

Households Living in Manufactured Homes by Owner vs. Renter (2012-2018) (millions)



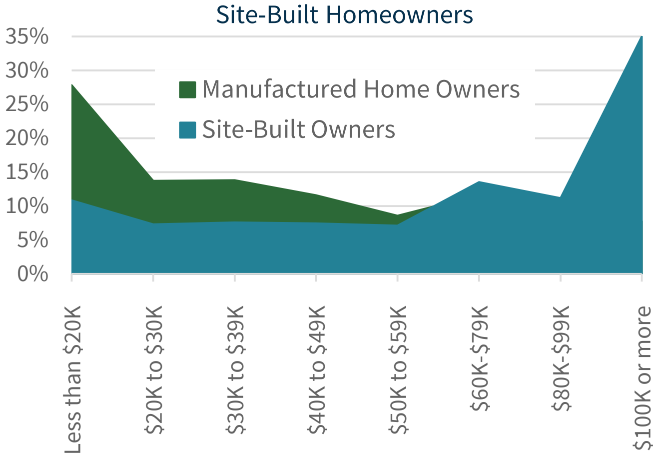
Source: American Community Survey

Manufactured Homes Occupied by Lower Income Residents

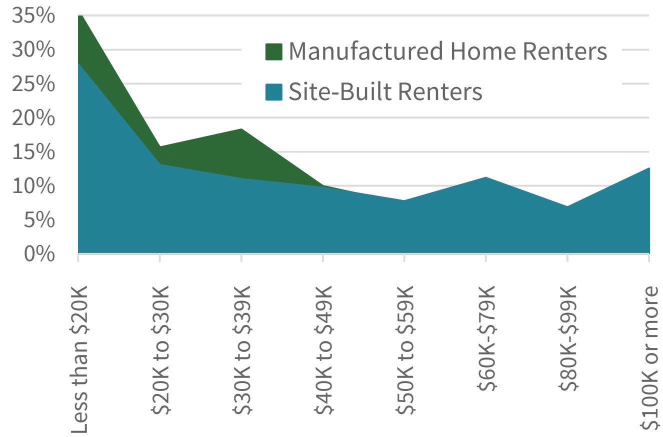
The median annual household income of manufactured home residents who own their homes is about $35,000, half of the median annual income of site-built homeowners. Over one-quarter of manufactured home owners earn less than $20,000 annually and two-thirds earn less than $50,000 annually. By contrast, about a third of site-built homeowners earn less than $50,000 annually.

While the distribution of renter household incomes skews lower in all types of housing, manufactured home rentals are particularly important to lower-income renters. Over one-third of renters of manufactured homes earn less than $20,000 per year and over three-quarters earn less than $50,000 per year.

Income Distribution* of Manufactured vs Site-Built Homeowners



Income Distribution* of Manufactured vs Site-Built Renters

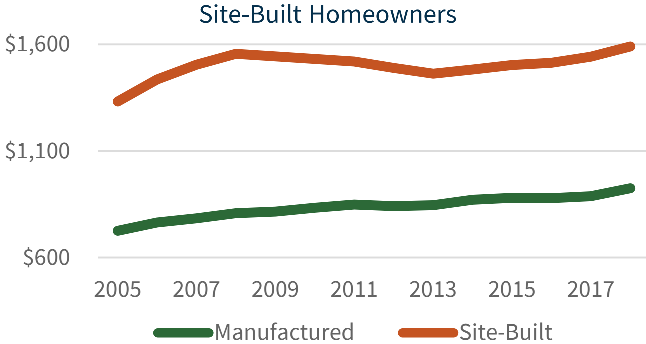


Source: 2017 American Community Survey, Note: Includes owners without mortgages * Note: K=$1,000 therefore $20K = $20,000

More Affordable All-In Housing Costs

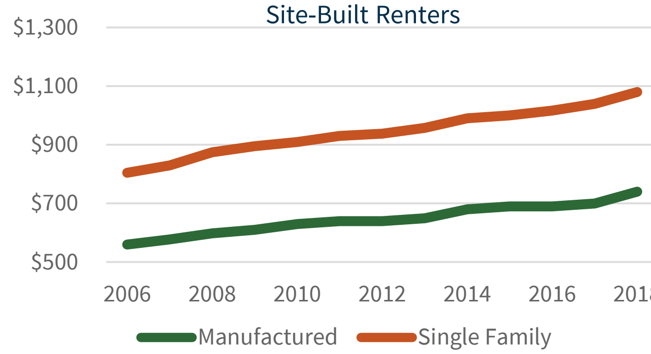
The median monthly all-in cost to own or rent a manufactured home is lower than for a site-built home. The median all-in monthly housing cost of $925 per month for manufactured home owners was $675 per month less than that paid by owners of site-built homes. The all-in cost was $350 per month less for renters of manufactured homes.

Monthly All-In Housing Cost* of Manufactured vs Site-Built Homeowners



Source: 2018 American Community Survey,
* Note: Excludes owners without mortgages

Monthly All-In Housing Cost* of Manufactured vs Site-Built Renters



Source: 2018 American Community Survey,
* Note: Excludes non-cash renters who may contribute services in place of rent or may not pay rent.

New Manufactured Homes More Affordable than Site-Built Homes

One solution to addressing the nation's housing supply shortage is to build more homes. New factory-built manufactured homes, which can be built as single- or multiple-section homes, appear to be significantly more affordable than site-built homes.

The average sales price of a new manufactured home built and shipped in 2018 was less than half of the sales price of a new site-built home: $79,000 for the average new manufactured home compared to almost $300,000 for the average new site built-home, excluding land costs. This translates to $55 per square foot for a manufactured home compared to $114 per square foot for a site-built home.

The cost for a single-section manufactured home was even lower, at just $49 per square foot compared to $125 per square foot for a similarly sized site-built home.

Select Pricing Statistics
Manufactured and Site-Built Homes

	New Manufactured Homes*	New Site-Built Homes**
All		
Average (Avg.) Sales Price	$ 78,500	$ 298,000
Average Square Feet (sf)	1,438	2,602
Avg. Cost per sf	$ 54.59	$ 114.43
Single - Section		
Avg. Sales Price	$ 52,400	$134,400
Avg. sf	1,072	$1,072
Avg. Cost per sf	$ 48.88	$125.37
Double - Section		
Avg. Sales Price	$ 99,500	$179,600
Avg. sf	1,747	1,747
Avg. Cost per sf	$ 51.26	$102.79

Source: U.S. Census Bureau Manufactured Housing Survey for Manufactured Homes, RS Means.

*Excludes imputed land costs

** RS Means construction cost data used to estimate the sales price for new site built homes with 1,072 and 1,747 square feet. The actual sales price is likely higher due to the fact the builder will add a profit margin at the sale of the new home to the consumer.

New Manufactured Homes Have Additional Costs

Manufactured homes do have additional costs compared to a site-built home. For instance, new manufactured homes cost about $5,000 per section to ship, in addition to costs for installation and utility hookup. According to Next Step Network, a non-profit specializing in manufactured homes, the all-in cost to deliver, set, and finish a manufactured home can range from $21,000 for a single-section home to $34,000 for a double-section home. However, even when including these costs, a new site-built home is still more than 85% more expensive than a comparable single-section manufactured home and 36% more expensive than a double-section home.

Average Cost to Deliver, Set and Finish a Home

	Average Cost
Single-Section	$21,000
Double-Section	$34,000

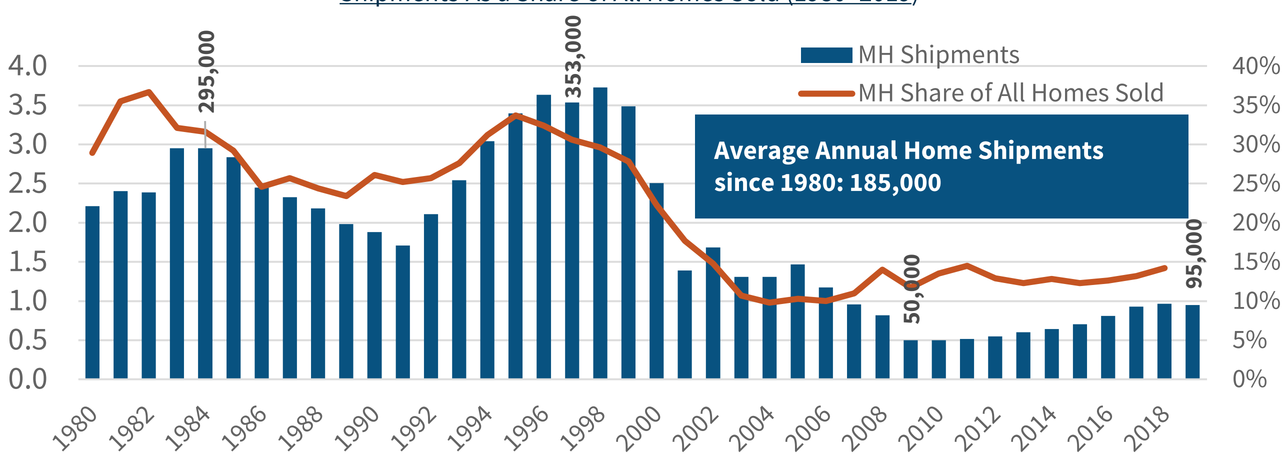
Source: Next Step Network
Note: Excludes foundation and garage

A manufactured home can also be built very quickly. According to one manufactured home producer, it takes about six production days to complete a typical home. While delivery and installation require additional time, a homeowner is generally living in a manufactured home within 90 days. By contrast, a site-built home can take up to six months to construct. These factors can make manufactured homes an attractive alternative for some homebuyers. The compressed construction cycle also makes it attractive to some developers and builders.

The Number of Manufactured Homes Shipped in Long-Term Decline

The number of new manufactured homes ordered and shipped has declined substantially over the past 20 years and hit a low of just 50,000 homes shipped after the recession ended in 2009. While the number of homes purchased and shipped increased as the economy rebounded, the level of shipments remains depressed. An estimated 95,000 new manufactured homes shipped in 2019, which is well below the long-term average since 1980 of 185,000 homes. The share of manufactured homes compared to all homes sold currently stands at 14%, which is below the 25-30% range recorded prior to 2000.

New Manufactured Homes Shipped (100,000s) and Manufactured Home Shipments As a Share of All Homes Sold (1980–2019)



Source: Manufactured Housing Institute

Production Concentrated

Industry capacity has declined since the 1990s. In 2019, just 35 manufactured home companies had 133 production lines, and the top three manufacturers produced three-quarters of new homes. Even so, manufacturers have some excess capacity: One of the nation's largest manufactured home producers, Skyline Homes, Inc., currently has five idle plants, according to a recent investor presentation. Additionally, the number of construction workers is 5% below the level seen a decade ago. Another large manufactured home producer, Cavco Industries, Inc., estimates that a single factory may need up to 400 construction workers. As a result, increased labor, automation, and innovation may be needed to address the backlog of orders listed in these companies' 2019 10-K financial reports.

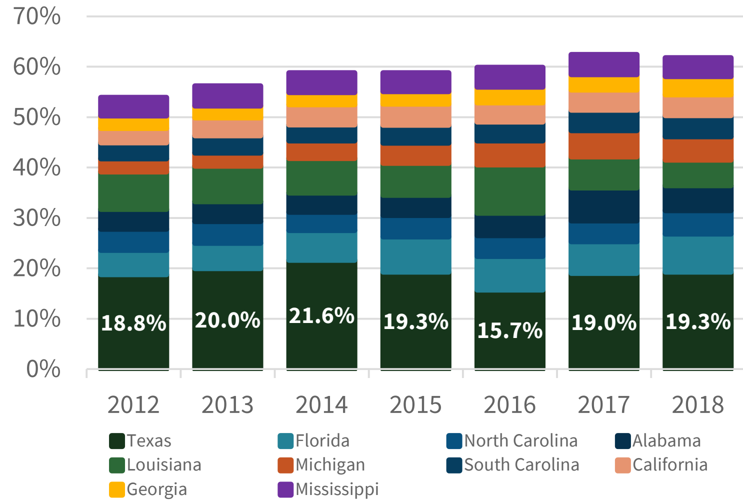
Zoning Restrictions an Impediment

Local zoning requirements may also be contributing to the decrease in shipments of manufactured housing. Despite the cost advantages of manufactured homes, many municipalities are increasingly using zoning and other land use regulations to restrict or eliminate the number of manufactured homes located within their boundaries, which likely dampens demand for manufactured homes. Zoning restrictions take several forms, including the complete exclusion of manufactured homes or the exclusion of manufactured homes from single-family residential zones. Other zoning restrictions impose minimum lot-size requirements specific to manufactured homes, which force these homes onto more rural, less dense areas. This can affect shipment of new homes by making it harder to find a location for a manufactured home.

Shipments Growing More Concentrated

Nevertheless, certain states are more favorably disposed to manufactured homes. With the exception of California and Michigan, these states are predominantly located in the south. Texas generally receives the largest share, accounting for about a fifth of new home shipments annually. In fact, shipments to favorably disposed states have grown more concentrated. The top 10 states accounted for 62% of annual shipments in 2018, up from 54% just six years prior. Only one state in the top ten, Louisiana, saw a decline in shipments, to 5.0% in 2018 from 7.4% six years prior.

10 States with the Highest Share of Shipments (2012-2018)*

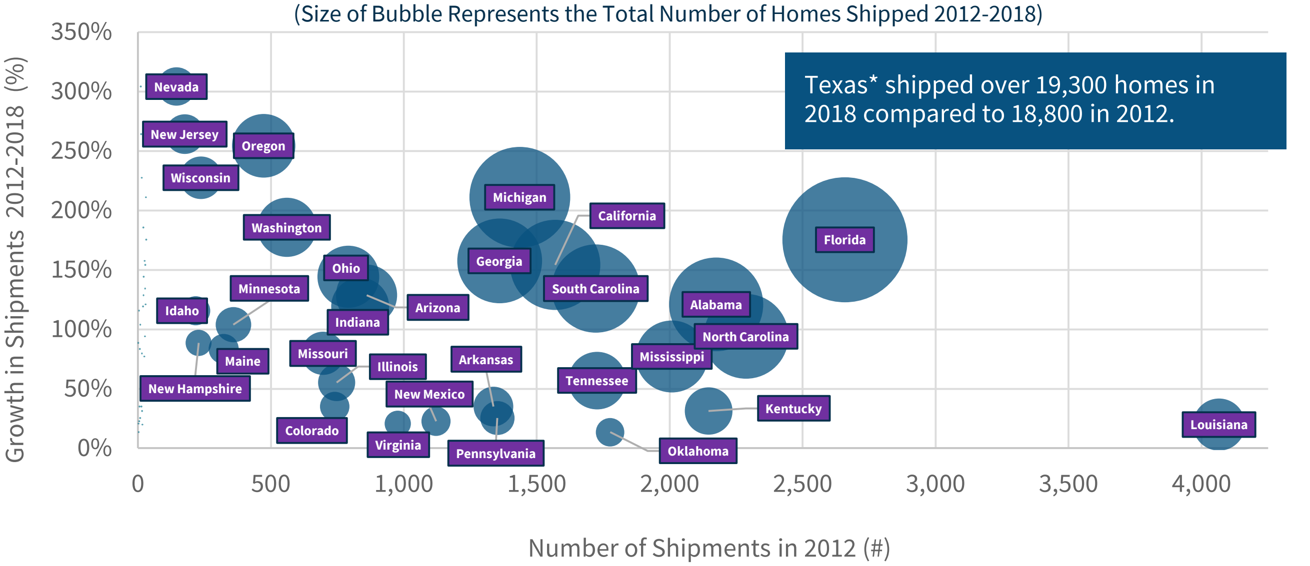


Source: U.S. Census Bureau Manufactured Housing Survey

Southern States Lead in Shipment Increase

Annual shipments have rebounded since bottoming out at 50,000 in 2010. In fact, shipments to many states have doubled over the past six years. However, even with shipments more than doubling, states such as Nevada, Oregon, New Jersey, and Wisconsin still receive fewer than 500 homes annually. Most states with substantial growth in the number of shipments are southern states such as Florida, Alabama, and Mississippi. Michigan and California were the only states outside of the south to have a substantial increase in both the percentage and number of shipments.

Growth in Shipments Since 2012 vs Number of Annual Shipments in 2012 for Select States*
(Size of Bubble Represents the Total Number of Homes Shipped 2012-2018)



Source: U.S. Census Bureau Manufactured Housing Survey

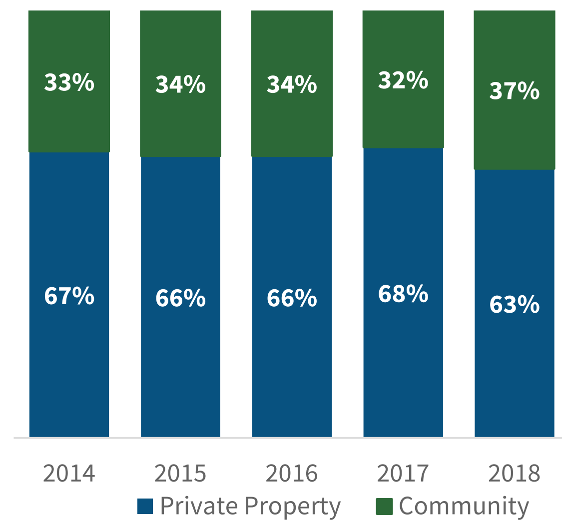
** Notes: Chart excludes Texas which shipped over 19,300 new homes in 2018 to present clarity around other states.*
Excludes states with fewer than 100 Shipments in 2012: Rhode Island, Hawaii, Massachusetts, Connecticut
Excludes states with fewer than 200 total units shipped 2012-2018: Kansas, New York, West Virginia, Utah, Delaware, Iowa
Excludes states where shipments have declined including: North Dakota, Wyoming, South Dakota, Maryland, Montana, Nebraska and Vermont

Share of Manufactured Homes Placed in Communities is Rising

Manufactured homes can be placed on privately owned land or placed in communities where homeowners rent a pad-site from the community for a monthly fee. These pads also contain hookups for utilities. According to Sun Communities, Inc., one of the nation's largest manufactured home community owner-operators, over the past three years, homes placed in their communities were only moved out at a rate of 0.8% per year on average.

Communities are generally classified either as an All Ages Community or a 55+ Community, the latter of which is popular with retirees who want to downsize and minimize home maintenance. Over the past five years, of all shipments, the share of homes shipped to communities has risen from 33% to 37%.

New Manufactured Homes Placed for Residential Use by Location (2014-2018)



Source: U.S. Census Bureau Manufactured Housing Survey

Home Title Affects Financing Options

Factory-built homes built to HUD Code may be titled as either personal property, known as chattel, or real property. How manufactured homes are titled affects the available options for financing. Structures titled as personal property are only eligible for chattel financing, while structures titled as real property may be financed through conventional mortgage loans. Many factors might impact a borrower's decision for titling and financing a manufactured home, including personal credit scores, the recommendations of a buyer's broker or seller, and even the desire to leave recordation of the home and land separate. The vast majority of manufactured homes are classified as personal property, which limits the owners of these homes to chattel financing.

Chattel Financing Can be More Expensive

In general, lenders consider chattel – or "home only" – lending to be riskier since the loan is only secured by the home, whereas a conventional loan is secured by both the land and the home. Data collected under the Home Mortgage Disclosure Act (HMDA) in 2018 suggests that interest rates charged for loans secured only by a manufactured home are higher on average than for a conventional mortgage loan. In 2018, the average interest rate for loans backed only by the manufactured home was 8.5%, compared to 4.7% for loans on site-built single-family homes and 5.4% on loans secured by both the manufactured home and the land on which the home is located. In addition, loan terms are generally 20 years instead of the typical 30 years for fixed-rate mortgages, which increases the monthly payment. Certain chattel financing products may have fewer consumer protections than mortgage loans. Even so, some consumers prefer chattel lending because transaction costs for chattel lending are the time to close the loan is generally faster for chattel.

Average Origination Rates by Property Type (2018)

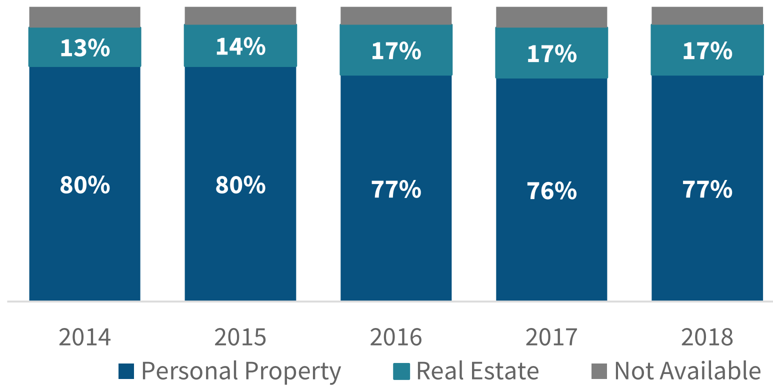
	Average Origination Rate
Single-family (1-4 units)	4.7%
Manufactured home titled as real estate	5.4%
Manufactured home titled as personal property	8.5%

Source: HMDA 2018 Single Family, 1st Lien originations excluding improvement loans and origination rates over 20%.

Fewer Homes Eligible for Conventional Financing

Even homes placed on private land frequently use chattel financing. In fact, while over three-quarters of new manufactured homes shipped are placed on private land, one-fifth are titled as real estate, indicating that these homeowners used cash or chattel financing to purchase their homes.

New Manufactured Homes Placed for Residential Use by Type of Title (2014-2018)



Source: U.S. Census Bureau Manufactured Housing Survey

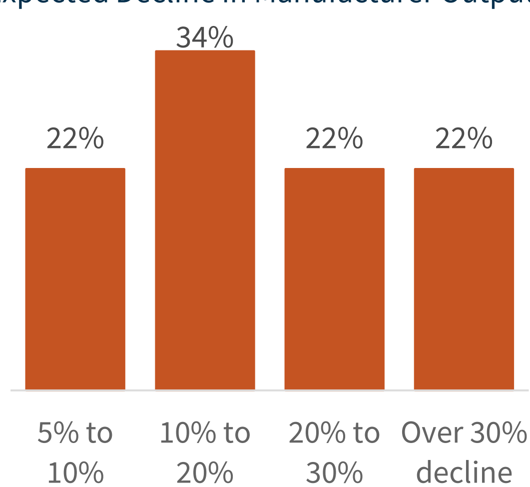
Local Zoning Has Not Kept Pace with Innovations

Some local zoning barriers for manufactured homes are rooted in a preference for municipalities wanting to maintain certain aesthetics that are typical of traditional, site-built homes. Recent innovative designs have made some manufactured homes conforming to the HUD Code visually indistinguishable from site-built homes. These types of manufactured homes may have high-pitched roofs, front porches, and decorative windows and trims. In addition, a recent report from the Federal Housing Finance Agency suggests that manufactured homes affixed to land may appreciate at rates similar to site-built homes, better enabling low- and middle-income families to realize the potential wealth-building benefits of homeownership. Despite this progress, not all state and local regulations have kept up with recent developments.

Extreme Job Loss from Covid-19 Expected to Have a Detrimental Impact on Supply…

It is estimated that over a seven-week period ending May 2 2020, over 33 million people filed for unemployment benefits, representing more than 20% of the workforce. Unsurprisingly, manufactured home builders have not been immune to the effects of job loss. Factories are starting to report the cancellation of orders for new homes. In addition, manufacturers are expecting lower output due to a variety of other factors. Next Step Network recently surveyed manufacturers to provide insight into emerging trends. Respondents reported working with 22% fewer staff on average and all reported complying with social distancing. These two factors are expected to slow output. Manufacturers also indicated that they are concerned about a disruption in the supply chain for the materials they use to construct homes, such as lumber, drywall, and fixtures, among other items. As a result, many respondents estimated production would likely be reduced in the coming months. While about half of respondents estimated a reduction of 20% or less, approximately one-fifth estimated production could decline by over 30%.

Expected Decline in Manufacturer Output



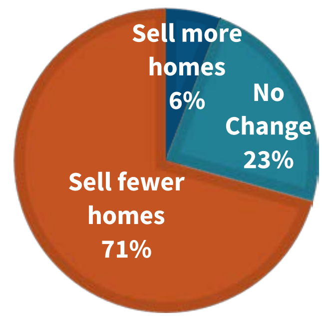
Source: Next Step Network

…and Will Likely Reduce Demand for New Homes

Manufactured homes built to the HUD Code are generally sold by retailers that have showrooms with display models for consumers to view. Next Step Network also recently conducted a survey of retailers. While this data is limited, it does provide an insight into recent trends. Respondents indicated that measures have been taken to comply with state/local ordinances related to COVID-19 mitigation, with over 60% restricting business hours, reducing or altering staff hours to maintain social distancing, and requiring an appointment. More than 70% of respondents expect to sell fewer homes in the coming months. Of those, 88% expect up to a 30% decline in home sales.

Tabulation of Manufactured Housing Retailer Responses to Next Step Network COVID-19 Survey

ANSWER CHOICES	RESPONSES
Using virtual walk-throughs or other digital platforms.	80.77%
Working to close sales in our pipeline.	73.08%
Open but with restricted/altered business hours.	69.23%
Reduced staff; alternating shifts to maintain social distancing	65.38%
Making appointments only for new business.	61.54%
Not taking walk-ins.	46.15%
Leaving homes open during business hours for self- or phone guided tours.	3.85%
Closed for business (all operations suspended).	0.00%



Source:: https://nextstepus.org/wp-content/uploads/2020/04/Summary-of-COVID19-Impact-Survey_2020.pdf
Note: Based on responses from 36 retailers across 16 states representing 57% of states receiving new home shipments in 2019

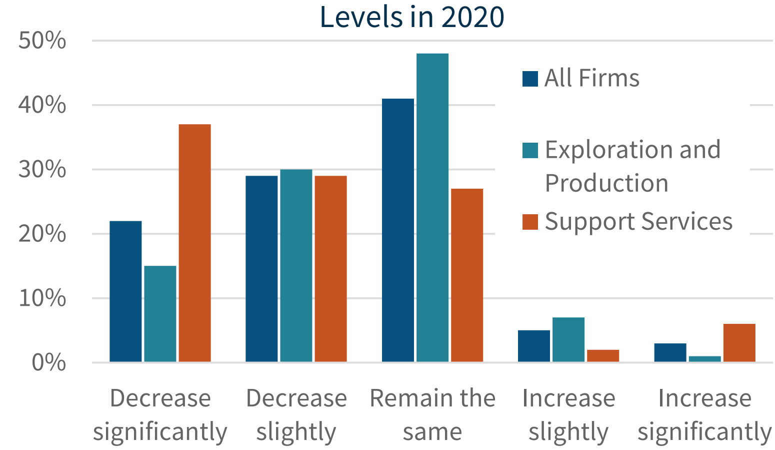
Retailers Using Virtual Tours

Manufactured housing retailers are increasingly using technology to close deals in their pipelines and to offset the decrease in foot traffic. Nearly 59% of respondents reported an increase in traffic to their website and that visitors are staying online longer. Thirty-two percent of survey respondents indicated increasing paid digital advertising showcasing homes and over 80% reported using online virtual walk-throughs and other digital tools. However, it remains to be seen if an increase in online traffic is sufficient to make up for the decline in buyers from brick-and-mortar retailers.

Demand in Texas Likely Impacted by Oil Prices

We expect that demand in Texas, which receives about 20% of shipments of new homes annually, will likely decline due to the oversupply of oil at a time when there is reduced consumer and industry demand for energy. According to the first quarter Dallas Federal Reserve Energy Survey, two -thirds of support services firms and 45% of exploration and production firms expect to reduce employee counts in 2020, likely contributing to a dampening of demand for new manufactured housing.

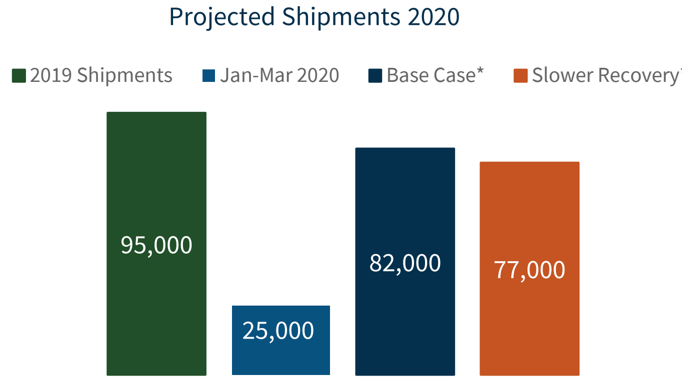
Share of Respondents That Expect to Change Staffing Levels in 2020



Source: Federal Reserve Bank of Dallas, Energy Survey as of Q1 2020

Reduction in Shipments Expected

With the likely fallout from manufactured housing builders' pipelines and a likely net reduction in new orders for manufactured housing, shipments in 2020 are likely to decline from the estimated 95,000 homes shipped in 2019. According to estimates from Next Step Network, manufactured housing shipments may decline to 82,000 units in 2020, but could decline even further to an estimated 77,000 units should the economy recover more slowly than currently anticipated.



*Source: U.S. Census Bureau Manufactured Housing Survey, * Next Step Network estimates based on individual stakeholder interviews and survey responses from 400+ retailers nationwide.*

Manufactured Housing: A Source of Affordable Housing

Factory-built manufactured homes meeting the HUD Code standard have substantially lower all-in monthly housing costs than site-built homes. As a result, it is important to preserve this source of unsubsidized housing for lower-income residents. In addition, factory-built manufactured housing is an affordable option for buyers desiring a new home. Notwithstanding a likely short-term decline in manufacturing from the impact of COVID-19, if the industry is able to increase the shipments of manufactured homes to the 30-year long-term annual average of 185,000 units, manufactured housing could meaningfully increase the nation's housing supply. However, this would entail other wide-ranging changes. Changes that may be needed to reach this level of manufactured housing supply include local zoning changes, further innovations in the manufactured housing construction process, changes in the titling process, improved access to affordable financing, and even likely increasing the number of manufactured housing servicers.

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