

Manufactured Homes: A Shrinking Source of Low-Cost Housing

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Introduction

Residential construction plummeted during the housing bust that began in 2006. Nearly a decade before the onset of the housing construction downturn, however, manufactured housing production began a protracted decline.¹ The drop in production, which accompanied a bust in manufactured home lending that followed a period of easy credit availability and lax underwriting during the second half of the 1990s², is notable not only for its severity, but also because manufactured homes are an important source of low-cost housing.

Manufactured Housing Production Collapses

Completions of new single-family and multifamily homes plunged by 70 percent between 2006 and 2011.³ The decline in manufactured housing production began much earlier than the drop in residential completions and has been even more severe. Since peaking at 374,000 units in 1998, manufactured home placements have fallen by nearly 90 percent (see Exhibit 1, next page). During the last four years, manufactured housing placements have averaged just 51,000 units per year, one quarter of average annual production during the last three decades. Manufactured home placements declined from 20.2 percent of total housing production in 1998 to 7.4 percent in 2012.

As production of manufactured housing has declined, so too has its share of the total housing stock. After increasing for several decades, manufacture housing's share of occupied housing units fell from 7.0 percent in 2000 to 5.9 percent in 2011.⁴

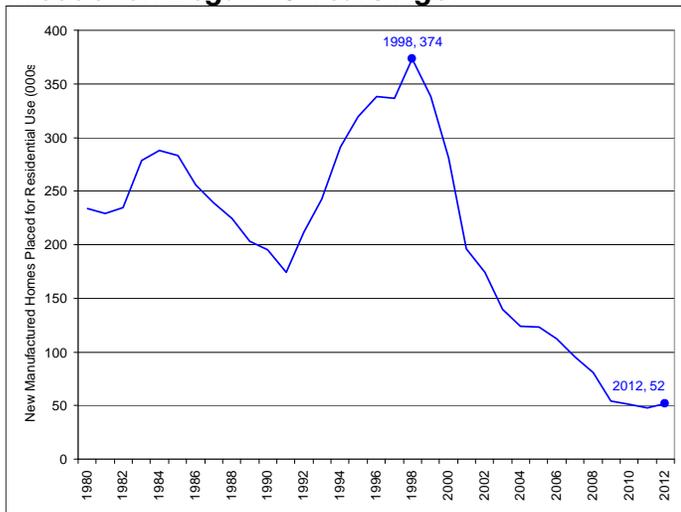
¹ Manufactured housing “production” is here defined as placements of new manufactured homes for residential use. A manufactured home, or “HUD-code” home, is a movable dwelling, 8 feet or more wide and 40 feet or more long, designed to be towed on its own chassis, with transportation gear integral to the unit when it leaves the factory, and without need of a permanent foundation. Excluded are travel trailers, motor homes, and modular housing.

² During the manufactured home lending boom of the 1990s, documentation requirements were eased, loan terms were extended, and down payments declined. The last two changes contributed to a growing incidence of negative equity among manufactured home mortgagors, which in turn increased loan defaults. The author thanks Peter Scherer of HAS Capital for providing valuable background on the recent history of manufactured home lending. For additional discussion of the boom and bust in manufactured home lending and production, see Ronald A. Wirtz, “Home, Sweet (Manufactured?) Home,” *Fedgazette* (July 2005), The Federal Reserve Bank of Minneapolis.

³ The completions statistics include conventional “site-built” homes plus prefabricated, panelized, sectional, and modular homes, but exclude manufactured housing.

⁴ Data on manufactured housing's share of the total occupied stock are from the U.S. Census Bureau's decennial census and American Community Survey. Unlike the production data discussed above, the housing stock data include some “mobile homes” that predate adoption of the Manufactured Home Construction and Safety Standards (the “HUD code”) in 1976.

Exhibit 1. The Slump in Manufactured Housing Production Began 15 Years Ago.



Source: U.S. Census Bureau, *Manufactured Homes Survey*.

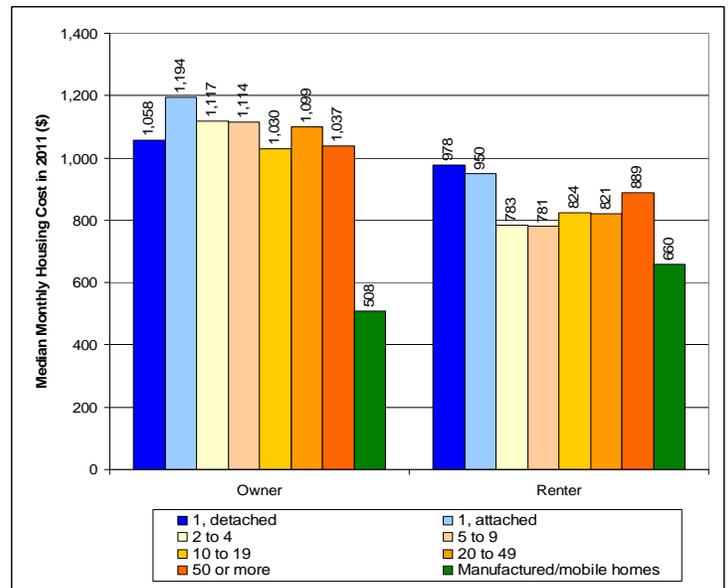
Manufactured Homes: A Low-Cost Housing Option

Given manufactured housing’s modest share of the total housing stock, the decline in manufactured home production might not seem important. However, manufactured homes account for an outsized share of low-cost housing, particularly among owner-occupants. Whereas manufactured homes account for approximately 7 percent of all owner-occupied homes, they represent 16 percent of owner-occupied units with monthly housing costs of less than \$500.⁵ As shown in Exhibit 2, the median monthly housing cost for owner-occupied manufactured homes is only \$508, less than half that of other housing types. Monthly rental costs also are substantially lower

⁵ Monthly housing costs for owner-occupied units include payments for mortgages or installment loans, real estate taxes (including taxes on manufactured homes and manufactured home sites if the site is owned), property insurance, homeowner association fees, cooperative/condominium fees, manufactured home park fees, land rent, and utilities. Maintenance and repair costs are excluded. Monthly renter costs include the contract rent, utilities, property insurance, and the manufactured home park fee. The housing cost data include some mobile homes.

for manufactured homes than for other forms of housing.⁶

Exhibit 2. Manufactured Homes Typically Cost Less Than Other Housing Types.



Source: U.S. Census Bureau, *2011 American Housing Survey*. Median renter costs exclude renters paying no cash rent.

Substantial gaps also exist between the cost of new manufactured homes and that of new site-built single-family homes. In 2012, the average price per square foot of a new manufactured home was \$41.97, less than half the \$86.30 per square foot cost of a new site-built single-family structure, excluding land.⁷

Comparisons of average costs do not necessarily account for variations across housing types in characteristics such as unit size, quality, amenities, land ownership, appreciation potential, and location. For example, manufactured homes are typically smaller than site-built single-family homes. They also are more than twice as likely as other housing types to be located in non-metropolitan areas, which have lower average housing costs

⁶ Manufactured homes account for approximately 4 percent of the renter-occupied stock and about 5 percent of renter-occupied units with monthly housing costs of less than \$500.

⁷ U.S. Census Bureau, “Cost & Size Comparisons: New Manufactured Homes and New Single-Family Site-Built Homes (2007-2012),” <http://www.census.gov/construction/mhs/pdf/sitebuiltvsmh.pdf>.

for all unit types than do metropolitan statistical areas.⁸

A Manufactured Housing Rebound Faces Obstacles

Despite these differences in characteristics, manufactured housing offers a low-cost alternative to site-built homes for millions of American households.⁹ But a revival of manufactured housing production faces multiple obstacles, including competition from distressed sales of site-built single-family homes, historically low interest rates and record affordability for site-built homes, limited conventional financing options due to titling of most manufactured homes as personal property, an underdeveloped secondary market for manufactured home loans, and pending financial regulations that could further curtail manufactured home lending.¹⁰ These headwinds

⁸ Even within non-metropolitan areas, however, manufactured homes have lower average housing costs than do other housing types. According to the 2000 Census, which provides the latest published summary tabulations that permit comparisons across housing types, the average gross rent for a manufactured home in non-metropolitan areas was 16 percent less than that of other housing types in non-metropolitan areas, and the average home value for owner-occupied manufactured homes was 61 percent less.

⁹ In addition to lower monthly housing costs, manufactured homes often offer the benefit of reduced upfront land costs compared with traditional site-built homes because manufactured homes are frequently placed on sites that are not bought at the time of home purchase. For stand-alone manufactured homes, particularly in rural areas, the land upon which the manufactured home is placed is often already owned by the occupant or by a family member. For manufactured homes that are part of land-lease communities, homeowners enter into a site rental agreement with the community owner and therefore do not need to come up with a down payment for purchase of land. The author thanks Peter Scherer of HAS Capital for these insights into the role of upfront land costs.

¹⁰ For discussions of the challenges associated with manufactured home lending, see Andrea Levere, "Conventional Financing for Manufactured Homes: Consider the Future of Housing Finance," U.S. House Financial Services Committee testimony, February 19, 2010, and Sean West, "Manufactured Housing Finance and the Secondary Market," *Community Development Investment Review* 2006 (2, 1). Credit availability for manufactured home purchase could be further constrained under regulations pursuant to the Dodd-Frank legislation that are scheduled to take effect in 2014. Some note that the new regulations may classify many manufactured home purchase loans as high-cost, thereby exposing lenders to greater legal liability and leading some creditors to exit the manufactured

threaten to prolong the depression in manufactured housing production and further diminish a significant source of low-cost housing.

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home finance business. See Alan Zibel, "Prebuilt Loan Predicament," *The Wall Street Journal*, The Property Report, April 24, 2013.