Why Advocates Need to Rethink Manufactured Housing

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Abstract

Manufactured homes are a major source of unsubsidized, low-cost housing. Accounting for 30 percent of new homes nationwide, they are especially popular in the South. Seventy percent of new manufactured homes are placed on the homeowner's land. The U.S. homeownership rate would drop by almost five percentage points if owners of manufactured homes were excluded. Bias contributes to neglect of issues important to these households, which typically have low incomes and little wealth.

Inattention has perpetuated bad bargains in financing, legal protection, quality, and appreciation. The "personal property" paradigm isolates manufactured housing from housing finance and contributes to depreciation. Research should identify factors contributing to appreciation, and mainstream mortgage lenders should enter the market to offer cheaper, more transparent financing. Education would help consumers navigate the marketplace. By incorporating manufactured housing into consumer-oriented, wealth-building developments, nonprofits could take the lead in offering buyers real value, not just low price.

Keywords: Homeownership; Low-income housing; Manufactured housing; Policy

We've met the enemy, and it's us

When the housing market speaks, advocates need to listen. If we listen carefully enough, we might figure out where to intervene effectively to improve housing for people with low incomes, little wealth, and not much power.

When it comes to manufactured housing, the market is not just speaking, it is shouting. Yet the huge popularity of manufactured housing has prompted only a shrug, and in some cases a cold shoulder, from those who promote housing opportunities:

1. "There is no wealth-building in owning a mobile home. Purchase loans may outlive the unit. In short, they are not an investment. They should not be considered owner-occupied housing since they have none of the benefits." (*Economic development director, former community development corporation director, Minnesota)*

2. "[The] myth that homeownership was impossible for modest-income Santa Feans and that the only choices were mobile homes…served

to undermine the civic fabric of Santa Fe. It encouraged people to opt out of a system fundamentally designed to broaden wealth and create a middle class." *(Pew Partnership commentary on homeownership as a vehicle for building social capital)*

3. "Manufactured housing and community development? An oxymoron." *(Nonprofit housing developer, Kentucky)*

We need to understand the dynamics of the manufactured housing sector. Advocates' skills in finance, development, and policy can help people make the most out of a fundamentally viable housing choice. That is not happening today. What signals are we missing?

What is at stake: the housing choice of millions

Could it be that buyers of manufactured housing are hapless consumers who "just don't get it"? According to this line of thinking, buyers do not realize what a bad deal a manufactured home is, and they probably chose a factory-built home out of ignorance, a need for easy credit, and susceptibility to marketing pitches. Their homes will never appreciate, goes the refrain, and quality is inferior to site-built construction. Maybe these owners will come around eventually, see the light, and buy a "real home." After all, the units look pretty temporary. Meanwhile, housing professionals turn their attention to other things.

In fact, people who buy manufactured homes are usually choosing the kind of shelter they will occupy for years to come. Some 6 out of 10 residents have lived in manufactured homes for more than 10 years. Almost 9 out of 10 say they are very satisfied or somewhat satisfied with ownership of a manufactured home, and people who have lived in a manufactured home are likely to become repeat buyers (Foremost Insurance Group 1999; Vermeer and Louie, 1995). Despite their heritage and nomenclature, only one out of a hundred mobile homes is ever moved from its original site (Wallis 1998).[1] The homes may or may not be physically integrated with the site, but in practice they might as well be. Owners of manufactured homes are not camping out in an oversized recreational vehicle. They are at home.

What is at stake in our perceptions about manufactured homes, mobile homes, and trailers is the housing choice of some 8 million households and 18 million people (Wallis 1998). If we dismiss such ownership as a

[1] In 1981, Congress revised the 1974 national building code (U.S. Department of Housing and Urban Development (HUD) code, implemented in June 1976) for mobile homes and formally named the product "manufactured housing." An integral chassis is a HUD code requirement. "Manufactured housing" does not include other factory-built housing types such as modular or panelized housing, which are built to one of four national codes adopted by local governments.

mistake, or a "bill of goods," we should probably also adjust our pride in record-high homeownership rates. Excluding owners of manufactured homes would reduce the country's homeownership rate from the current 67.7 percent to 63 percent.[2]

There is a palpable stigma attached to manufactured homes, dating back to when workers towing trailers moved from city to city, chasing jobs and crowding into muddy, unsanitary trailer parks. As a modern housing choice, manufactured housing does in fact often fall short. Site-built homes offer better financing, legal protections, buildup of equity, and marketability. The parking lot aesthetics of some developments are hard for anyone to love. Local budgets suffer when large households occupy low-value, depreciating manufactured homes. However, these serious shortcomings are not inherent in the factory-built home itself. Rather, they are the product of laws, policy choices, and business practices that are selling millions of people short.

Who lives in manufactured homes?

Most buyers of manufactured homes have low incomes and little wealth. Overall, occupants of manufactured homes had a median income of $23,413 in 1997, compared with a U.S. median of $37,005. Recent buyers are only a little more affluent. People who bought new homes during the past eight years had a median income of $30,000 in 1999, compared with the U.S. median of $40,800 that year (American Association of Retired Persons [AARP] 1999; U.S. Bureau of the Census 1997c, 1999).

Median net worth is $59,000 for owners of manufactured homes, compared with $102,000 for all homeowners. Reflecting the continued occupancy of millions of old units, owners reported a median home value of just $17,000, excluding land (Federal Reserve Board 1997; Foremost Insurance Group 1999).

One of the industry's strong points is its appeal to distinctly different market segments. Owners tend to be either very young or elderly (Vermeer and Louie 1995). Although most buyers have low incomes, one segment of the market is quite well off: About 10 percent of manufactured home residents report a net worth of more than $250,000, and another 19 percent are worth more than $100,000 (Foremost Insurance Group 1999). Many of the owners with high net worth live in well-planned subdivision-style communities with recreation centers, pools, and even golf courses. These high-end communities demonstrate the potential of factory-built homes, but also represent a continuing shift

[2] The U.S. census counts every owner of a manufactured home as a homeowner, whether or not the home is on leased land (U.S. Bureau of the Census 2000).

away from the industry's original focus on serving the affordable housing market.[3]

Minorities have traditionally been underrepresented in manufactured housing, but their numbers are growing—7.8 percent of the residents of manufactured homes are African American and 4.6 percent are Hispanic. Almost all African-American residents of manufactured homes live in the South, comprising 8 percent of African-American households there.

A total of 82 percent of African Americans own their manufactured homes, while 58 percent of Latino households own theirs (U.S. Bureau of the Census 1997a).

Why do people buy?

Bargain prices

Housing advocates might find it surprising to walk through a couple of new homes at a dealer's lot, keeping the monthly payment in mind and mentally comparing the local rental stock available for the same price. Interiors have good light. Insulation standards are solid. Floor plans have come a long way from the time when residents said that living in a mobile home was like living in a hallway.

Because their costs per square foot are about half those of site-built homes, manufactured homes put ownership within reach of millions of households, and fully 79 percent are owner occupied (U.S. Bureau of the Census 1997a). A good-quality single-section, 1,000-square-foot home costs about $26,000, including setup and installation. It has been argued that cost comparisons with site-built homes are unfair because construction standards are inferior, but a Harvard study refutes that, labeling as "exaggerated" the "concerns about the difference between manufactured homes…and [homes] built to applicable local building codes" (Vermeer and Louie 1995, section IV, 2). The study found that code standards have little to do with manufactured housing's price advantage.

Although interest rates are high, longer loan terms have made monthly payments competitive with rents in many markets. Even at 12 percent interest, a $26,000 home costs less than $300 a month over 20 years. A late-model used home—and they are abundant now, because industry lending practices have contributed to high rates of repossession—can be had for just over $200 a month. These payments enable many would-be buyers to cover land acquisition or site rental costs

[3] This is one of the central points of Wallis's excellent 1991 study.

with a little room to spare. Low- or moderate-income families living in a multifamily rental can achieve the privacy of a detached home much sooner with a manufactured home than with site-built alternatives.

Quality of construction

Since 1976, all units have been designed and constructed to a performance-based code, the only federal building code. It is administered by the U.S. Department of Housing and Urban Development (HUD), usually in partnership with state administering agencies, and it preempts local codes. Federal preemption allowed the industry to achieve scale and create the cost advantage of mass-produced housing. Despite widespread perceptions of low quality and short life, *Consumer Reports* says that “manufactured housing can last as long as site-built housing,” (“Manufactured Housing ” 1998, 30), and one expert concluded that recently built units have a useful life of 55.8 years (Meeks 1995). Harvard’s Joint Center for Housing Studies is more conservative, placing the life expectancy in the range of “30 to 40 years or even longer,” depending on maintenance (Vermeer and Louie 1995, section II, 2).

Marketing

Fundamentally different marketing systems for manufactured housing and conventional housing affect how consumers think about the two kinds of shelter. Comparison shopping for a site-built home, whether new or used, takes a long time. A key element is location, that is, choosing a particular place to live. Conventional homes come in all kinds of shapes, sizes, and construction types. The job of organizing the complexity falls to a real estate broker, who has to abide by strict disclosure rules. The multiple listing service provides uniform data on each house. After deciding on a house, the buyer begins a separate process of shopping for financing in a competitive marketplace regulated with the home buyer’s interests in mind. By appraising collateral, the lender provides a reality check on the agreed price. A professional home inspection is often required.

By contrast, when shopping for a new manufactured home, the consumer sees the unit in isolation from the site, on a dealer’s lot. Because lane widths and bridge heights make the home similar in exterior dimensions and floor plan to other manufactured homes, it is like a commodity, a product whose competitors seem functionally identical. Marketers may try to set their products apart with attention-getting features like skylights, his and hers bathrooms, and garden tubs.

The complexities of a family’s biggest purchase are smoothed over by the manufactured housing dealer, who sometimes combines the roles of home builder, real estate agent, lender, appraiser, inspector, and land developer. Perhaps the role of home buyer counselor should be added too, because few sources outside the sales process are available to inform the consumer. In-house dealer financing programs can accommodate buyers of widely varying qualifications, with approvals coming in as little as an hour. The experience may be similar to car shopping. While the conventional home buyer expects to take a long time to choose a home and get financing, the manufactured home buyer has a much shorter time horizon.

Fresh, new, private living space; easy shopping and financing; adequate quality; and homeownership *now* add up to a powerful appeal, and with a little reflection, it becomes easier to see why manufactured homes have been chosen by an average of 29 percent of new home buyers every year since 1980 (Manufactured Housing Institute 2001).

What are people buying?

About 7 out of 10 manufactured homes in place are single section, but recent buyers favor multisection homes (Foremost Insurance Group 1999). The additional room comes at a higher cost per square foot. The more conventional appearance of these homes gives buyers a wider choice of sites under state and local zoning laws that prohibit single-section homes.

Most recent buyers paid less than $35,000 for their manufactured home, including setup and installation, but excluding land. One out of four paid over $45,000 (AARP 1999).

More and more buyers are placing homes on their own land. During the 1990s, 69 percent of new manufactured homes nationwide were sited on the owner's land. In the Southeast, it was 79 percent (AARP 1999). The industry's land-home financing packages and the development of subdivisions specifically for manufactured housing have supported the trend.

Slightly less than half of all owners of manufactured homes live in land-lease communities or on land owned by someone else, typically a relative (Foremost Insurance Group 1999).

Where are people buying?

The South has long been the center of the manufactured housing market. In recent years, two out of three new manufactured homes have been placed there (HUD 2000b). The region's popularity with retirees, the supply of rural land, and relatively low incomes are the likely causes. More than half of the existing stock of manufactured homes is in the South: Florida, Texas, North Carolina, Georgia, and South Carolina are among the top six states for existing units in place, and accounted for 2.7 million units in 1998 (Manufactured Housing Institute 2000a). In some states, as many as one out of every five households lives in a manufactured home. In North Carolina, manufactured housing accounted for fully 40 percent of new home starts during the 1990s (The Brookings Institution 2000).

Although HUD and the Manufactured Housing Institute have sought greater acceptance for manufactured housing in infill and suburban locations, it remains a rural choice for the most part. About 7 out of 10 manufactured homes are in rural locations and comprise about 15 percent of the nonmetro housing stock nationwide (U.S. Bureau of the Census 1997b; Vermeer and Louie 1995).

What is being done?

Some consumer advocacy is taking place, but not much in view of the scale of the manufactured housing sector. Government, nonprofit, and philanthropic involvement is strikingly less than in the world of "real homes."

Grassroots organizations of owners of manufactured homes are strong in some states, including California, Florida, and Michigan, but they are weak or nonexistent in others—including many states in the South with high concentrations of manufactured housing. The National Federation of Manufactured Home Owners is a dedicated, 30-year-old federation of state organizations, but its all-volunteer staff has few resources for strategic initiatives. Its highest priority in 2000 was lobbying for an overhaul of HUD building code administration. Consumers Union has published one detailed article for buyers and sponsors some pro-consumer lobbying. AARP is a strong advocate for improved regulation of construction standards. Legal Services has lobbied for improved tenant protections in some states and in Ohio has produced a brief consumer guide (Buchanan 2000).

In Vermont, New Hampshire, and California, housing advocates have taken up the cause of mobile home park residents threatened with eviction by the proposed sale of their park. As of 1996, about 140 parks had converted to resident ownership nationwide (Sazama 1996). In Vermont, state law gives tax benefits to park owners who sell to residents and gives tenants the right of first refusal to buy parks offered for sale.

Federal Housing Administration (FHA) financing programs are on the books for purchasing or refinancing manufactured housing, including homes titled as personal property, and also for development of land-lease communities. However, the programs are little used, mainly because the industry's retailing system favors its own finance programs, and most conventional housing lenders have opted out (HUD 2000b).

Despite its expertise in financing modest rural homes, the Rural Development Administration (RDA) has only a small role in financing manufactured housing. RDA's nationwide manufactured housing loan originations in fiscal year 2000 amounted to just 487 loans (2.8 percent) in the Section 502 Direct Loan program and 336 loans (1.2 percent) in the Guaranteed Rural Housing program (U.S. Department of Agriculture 2001). Both programs are limited to new units sold by dealer-contractors who meet strict agency requirements. Few of them do (Hobbs and Stetson 2001).[4]

No comprehensive data exist on state housing finance agency programs or loan volume for manufactured housing (Rieman 2001). The New York and New Hampshire agencies have financed resident purchases of mobile home parks. Maine has offered revenue bond–funded loans on leasehold mortgages since the early 1980s and now self-insures loans on single-section units, including used homes. Mississippi uses mortgage credit certificates to provide consumers with a 40 percent reduction in interest rates on purchases of manufactured homes. North Carolina limits financing to new, multisection homes.

HUD recently issued regulations designed to increase manufactured housing loan purchases by government-sponsored enterprises (GSEs). Up to now, participation in the sector by Fannie Mae and Freddie Mac has been very small. In 1998, GSEs funded less than 15 percent of all loans on manufactured housing, compared with their 55 percent share of the home mortgage market overall (HUD 2000b).

National organizations working on affordable housing, development banking, community reinvestment, and rural development are conspicuously quiet about manufactured housing.

The challenge for advocates

Millions of households will continue to choose manufactured housing. The existing system works smoothly, delivering affordable housing to many low-income households and supporting a thriving business for dealers, financiers, manufacturers, and park owners.

[4] Agency dealer-contractor requirements are set forth in RDA HB–1–3550, *Field Office Handbook,* pp. 9–13 through 9–19 (7 CFR 3550.73).

The challenge for housing advocates is to critically analyze the system and correct policies and practices that hurt low-income people. Attention to manufactured housing from the consumer's point of view is a scarce commodity. There is a shortage of consumer information on important issues like comparative quality, financing options, fair market value of new and resale homes, values of developed lots, and factors contributing to equity-building.

As Allan Wallis has pointed out, invisibility has long been a characteristic of the manufactured housing sector (1991). Where affordable housing developers, advocates, or lenders gather, the mention of manufactured housing is likely to evoke derision. To demonstrate an open mind, one might venture a positive comment about "modular" homes, which are built to local codes, financed as real estate, and offer much smaller price savings. There are a few worthy exceptions to the tradition of not-so-benign neglect, but on the whole, this large part of the country's affordable housing sector calls out for more scrutiny, policy innovation, and transfer of known techniques from the realm of site-built affordable housing.

Financing problems

"Financing procedures for most manufactured housing sold today are holdovers from the origin of a manufactured home as a mobile vehicle or trailer," says a recent HUD report (HUD and National Association of Home Builders [NAHB] 2000, 37). A few finance companies dominate this specialized kind of lending, which accounts for up to 90 percent of manufactured housing finance (Vermeer and Louie 1995). Although it does provide convenient, fast decisions and accommodates marginal credit, personal property financing is costly. Buyers pay anywhere from two to five percentage points higher interest than conventional home buyers (HUD and NAHB 2000; "Manufactured Housing" 1998).

Manufactured housing lenders specialize in subprime lending, which can justifiably cost from two to three percentage points more.[5] Research is needed to understand how many buyers of manufactured homes paying premium interest rates actually fit the subprime borrower profile, and how many pay high rates unnecessarily. A survey of manufactured housing lenders and retailers in Austin, TX, found that a borrower with good credit and a 5 percent down payment would have been charged from two to four percentage points more by manufactured housing lenders than by a conventional home mortgagor (Consumers Union Southwest Regional Office and the Austin Tenants' Council 2000). Cit-

[5] According to National Consumer Law Center (2000), "If higher rates for some borrowers were meant *only* to compensate for the increased losses expected, the rates should be no more than two or three percentage points higher for C loans than for A– loans" (4).

ing the fact that a majority of buyers have held the same job for 5 to 10 years, a Freddie Mac economist notes that "except for lower incomes, the profile of manufactured home buyers seeking financing does not appear to differ greatly from site-built loan borrowers" (Bradley 1997, 4). It is quite possible that the intersecting interests of manufacturers, dealers, and financiers combine to successfully market quick-approval, high-rate loans to some borrowers who could have qualified for lower-cost money.

In southern markets, where virtually all African-American and many Latino residents of manufactured homes live, there may be significant overlap between manufactured home subprime lending and home lending to minorities. For example, in 1998, 3 of the top 10 lenders to African-American and Latino applicants in Texas were manufactured home lenders (Consumers Union Southwest Regional Office and the Austin Tenants' Council 2000).

Because personal property financing is not governed by the Real Estate Settlement Procedures Act, which requires disclosure of settlement costs and prohibits kickbacks or referral fees for loan closing service providers, "[manufactured housing] retailers can and frequently do earn commissions, rebates, or other payments on loan originations, credit life insurance, property insurance, and other services arranged for at the time the loan is closed" (HUD and NAHB 2000, 41). Research is needed on whether such fees are reasonable or whether the opportunity to charge them with little scrutiny is resulting in the kinds of abuses that have been documented in the home equity loan business.

Value may have only a loose relationship to price in this marketplace, in contrast to the world of site-built homes, where an appraisal using comparable properties is a critical benchmark. Retailers commonly adjust home prices according to a customer's perceived ability to pay. Prices can vary by $5,000 to $10,000 and more for identical units. To accommodate the practice, loan-to-value ratios well over 100 percent are reportedly common for manufactured housing finance companies.

Such high loan-to-value ratios practically guarantee depreciation and directly contribute to defaults. In the site-built home mortgage industry, lenient qualification standards have generated the highest rates of delinquency and foreclosure in two decades, but manufactured housing defaults are much higher still. Some 12 percent of manufactured housing loans go into default, a rate four times higher than that for conventional loans ("Manufactured Housing" 1998).[6] Short of a national

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[6] It is worth noting that the Title II FHA-insured loans in the Government National Mortgage Association's (GNMA) portfolio had a delinquency rate twice that of its loans for FHA-insured site-built homes, according to the agency's 1999 annual report (GNMA 1999). This suggests that permanent attachment to the site, as required by Title II FHA, may reduce manufactured housing delinquencies.

economic depression, this rate of homeownership failure would be unthinkable in the world of "real housing" finance, but it is somehow tacitly accepted for people who make their home in a factory-built unit.

Categorizing homes as personal property puts manufactured housing outside the realm of conventional housing finance. Even buyers who place homes on their own land continue to use personal property loans to finance them, and they finance the land separately.

On the fringes of the loan marketplace are lower-cost, slow, and highly regulated financing programs for manufactured housing, some of them backed by state and federal finance agencies. All of them are reserved for manufactured homes categorized as real estate, except for HUD's dormant Title I program and the Mortgage Credit Certificate program.[7] Advocates could make an important difference by promoting the value of these programs, which would save consumers money and increase competition. The industry's Manufactured Housing Institute has published a guide to these mainstream mortgage lending programs, and optimistically predicts that they are the wave of the future (2000b). However, the existing system of personal property finance is skillfully marketed, profitable, and unlikely to change without efforts from informed consumers, interested housing advocates, and motivated lending institutions.

As the regulator of GSEs, HUD is trying to stimulate secondary mortgage market funding for manufactured housing. Noting that 76 percent of manufactured housing loans were to low- and moderate-income borrowers in 1998 and that most homes are being placed on the home buyer's land, HUD rejected the request by secondary market agencies to exclude this part of the market when calculating 2001–2003 affordability goals. The GSEs had argued that the manufactured housing market was "not available" to them, and that they were not "full participants" in it (HUD 2000b, 65090).

Sales and installation problems

As *Consumer Reports* puts it, "[S]hopping for a manufactured home can combine all of the headaches of buying an automobile with the complexities of any housing purchase" ("Manufactured Housing" 1998, 33). Buyers must figure the process out for themselves, since there is virtually no buyer education for manufactured home buyers like the hundreds of programs that have evolved for conventional home buyers over the past

[7] While FHA's Title I manufactured home loan program is available for personal property homes, volume in the program dwindled during the 1990s, from 28,404 loans in 1991 to a negligible 377 loans in 1999 (HUD 2000a). The Mortgage Credit Certificate program holds promise for reducing the cost of personal property financing.

10 years. There is little comparative information available about various makes and models, which vary considerably in quality. Nor is there any information about dealer costs and markup norms to help consumers negotiate a deal.

Kevin Burnside, a 15-year veteran of manufactured housing marketing at the dealer and corporate levels, describes a sales environment that is sometimes driven by monthly and yearly quotas to the detriment of the customer. While acknowledging that some dealers are conscientious about customer service, he describes pervasive problems with covert sales tactics: poorly trained salespeople who do not offer options on insurance, financing, and setup; and "homes built to the absolute minimum of the HUD code" (Burnside 1999, 11–12).

National surveys show high levels of satisfaction with ownership of manufactured housing, but they also reveal that owners frequently have had to work out major problems with their homes (AARP 1999; "Manufactured Housing" 1998). Installation of the manufactured home is a critically important process that is lightly regulated and accounts for a significant share of owner complaints.[8] Scrutiny needs to be applied to the practice, used in North Carolina and possibly elsewhere, of having buyers waive judicial review of disputes by signing an arbitration agreement at closing.

Problems with leased sites

Affordable housing professionals propose homeownership projects on leased land only in innovative situations like land trusts, where commonly owned land enables a community to ensure permanent affordability or other social goals. Except in such controlled circumstances, no one would recommend investing thousands of dollars in a home sited on land held under a short-term lease. Yet that is the basic situation for the great majority of the 3 million owners of manufactured homes whose home is on leased land.

The balance of power in a mobile home park is with the landowner. For most residents, the option of moving their home is not realistic because of the scarcity of alternative sites, the $2,000 cost of transportation and setup, and low incomes. Site rental rates, utility charges, and cable TV fees can have hidden components and unforeseen increases. Arbitrary park entry and exit fees are still legal in many states. Strict park rules can range from petty to draconian. In contrast to members of a conventional homeowners association, who set their own rules, homeowners

[8] "Manufactured Housing" (1998) cites regulators who say that installation complaints account for one-half of all complaints. The AARP survey showed that 15 percent of recent buyers had problems with installation.

in mobile home parks are powerless tenants when it comes to the land they occupy. An evening visitor's car may be towed without notice. If water is run through a central meter, guests staying more than a few days may be required to register, and conservation may be imposed by periodic cutoffs. When management added streetlights in one park, residents of sites with new light poles were assessed a fee, while neighbors got a free ride.

It is all too easy for an owner to intimidate residents who complain or try to organize, and such retaliatory conduct is explicitly illegal in only 25 states. In others, complaints can lead to eviction (Buchanan 2000). Abuses can also arise when the sale of a used home is subject to a park owner's approval, enabling an unscrupulous owner to reject purchasers and make a lowball offer in the end ("Manufactured Housing" 1998). A Legal Services attorney notes that "in many states park owners are free to order the removal or replacement of homes once they reach a certain age, which eliminates much of the resale value" (Buchanan 2000, 15).

Although landlord-tenant protections have been extended to mobile home owners in many states, as of 1998, 18 states had not done so. Even where the protection exists, one expert notes that "many tenants are unaware of their rights and, in areas where vacancies are low, intimidated against exercising them" (Wallis 1991, 195; see also Wallis 1998).

Condition of older homes

Programs and financing for the rehabilitation and replacement of old mobile homes should be an urgent priority. As many as 3 million homes in the nation's current manufactured housing inventory were built before the implementation of the HUD building code in 1976, when some homes had a useful life as short as 10 years (Meeks 1995; Vermeer and Louie 1995). Many of these were built in the boom years of 1968 through 1973, when 2.7 million new homes were sold.

Few housing rehabilitation loan programs target owners of manufactured homes. Some programs actually exclude mobile homes altogether, as if these dwellings were not real homes, despite having been in service for 25 years or more. This is all the more regrettable since identifying old manufactured homes is a straightforward matter of checking for a HUD certification plate on the exterior or checking tax rolls for the date of origin; compared with the difficult job of determining which site-built homes in a community are substandard, this is easy.

A Harvard Joint Center study found that "renters of manufactured housing are some of the most transient and low-income households in America" (Vermeer and Louie 1995, section III, 5). The 1.6 million rental units in the stock are likely to include a large number of substandard pre-1976 units. Programs targeting rental manufactured homes would reach a population with pressing needs. For example, it might be possible to offer financing for good-quality used replacement units that could be purchased cheaply by landlords.

The price of living in chattel

A recent *Shelterforce* article states flatly that “mobile homes don’t appreciate in value” and “can’t build equity” (Rosenbloom 2000, 22).[9] Unfortunately, these assertions reflect a near-consensus among housing advocates. Consumers Union reports that two-thirds of units depreciate. However, the converse is that one-third of manufactured homes have held their value or appreciated (“Manufactured Housing” 1998). Several other studies establish the simple fact that some manufactured homes increase in value, and some decline.[10]

Research is needed to sort out the factors that cause values to go up or down. With better information, policies and practices that build wealth for owners of manufactured homes can be designed. An extensive database on value trends exists for the Michigan market, where Datacomp Appraisal Systems, Inc., has specialized since 1987 in appraising manufactured homes using the comparable valuation approach. The company appraises 8,000 manufactured homes a year. In a detailed analysis of 88,000 resales, Datacomp identified specific reasons for value appreciation and depreciation (Boers 1991). Not surprisingly, some of the factors affect site-built home values too: location, obsolescence, and inflation. Values of identical homes in comparable parks varied by as much as 24 percent across market areas in Michigan, illustrating the importance of local market preferences (Boers 1997).

As common sense would suggest, paying too high a purchase price was found to correlate with decreasing value. Ted Boers of Datacomp notes that with manufactured housing, “The buyer may be relying on the lender’s willingness to lend ninety percent of the purchase price as confirmation that it is indeed worth that much” (1998, 2). Such reliance is misplaced, given the norms of manufactured housing finance.

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[9] Rosenbloom presents useful information and analysis about problems affecting owners on leased land and urges advocates to put mobile homes on their radar screens.

[10] Datacomp Appraisal Systems, Inc., analyzed 185 manufactured homes resold in Michigan as personal property, several years after their original purchase. Of these, 97 increased in value, and 88 declined. According to a study by the California Manufactured Housing Institute, appreciation rates in four manufactured housing communities in California ranged from 8 to 17 percent during the hot real estate market of the late 1980s. In Washington state, appreciation rates in six counties varied from 0.3 to 4.9 percent in a study of 3,200 resales by the Washington Manufactured Housing Association (North Carolina Manufactured Housing Institute 1996).

Boers (1998) found that cost and availability of land-lease sites affected values over time. High rents correlated with low resale value. Where sites for new homes were in short supply, values of used homes increased. A manufactured home's age was found to be an important factor in reducing resale value for the first 10 years. After that, value was influenced more by the condition of the home than by its age. The supply of alternate forms of housing and the presence or absence of an organized resale network also affected resale values examined in the Michigan study (Boers 1998).

The accurate answer to the question "Can manufactured homes appreciate?" seems to be "It depends." Like the value of any home, the value of a manufactured home over time is contingent on many factors. Unfortunately, the perception that depreciation is somehow inherent in manufactured homes is widespread. It is at the root of disinterest about them among development bankers, advocates, planners, and nonprofit developers. These professionals are rightly concerned that housing should be a foundation for building wealth, but if advocates simply write off the preference of so many home buyers for lower-cost manufactured units, we passively contribute to a problem we should be helping to solve. Available data suggest that depreciation is not a mystery. It can be understood and, in many cases, reversed.

It is an important challenge. After all, even though manufactured homes are relatively cheap, they are still the most valuable thing a lot of families own. In North Carolina, for example, the value of manufactured housing in place was estimated at $6.4 billion in 1990 (North Carolina Manufactured Housing Institute 1997). In just this one state, a 3 percent change in value up or down means $180 million in assets gained or lost, every year, for families at the bottom of the wealth ladder.

The way we classify manufactured homes in law could also be critical to resale value. Some insight on this comes from Hernando De Soto, a third world development specialist who has written about the relationship between property systems and low-income household wealth (2000). He argues that physical characteristics are actually secondary in determining the capital value of an asset. Of prime importance is the way assets are categorized, described, and "fixed" in legal and administrative systems. Fixing an asset in a uniform way enables the greatest number of market participants—including lenders, buyers, real estate agents, and secondary mortgage market investors—to relate to it with minimum confusion and uncertainty. Once an asset is legally fixed, "[its] economic potential…[can] be used to produce, secure, or guarantee greater value in the expanded market" (De Soto 2000, 48).

De Soto's subject is the untapped wealth locked up in informal, untitled third world dwellings and property. Although an American manufactured home is formal property with legal recognition, it stands distinct from the rest of the housing stock in its legal classification. This isolation relates to the pervasive problem of depreciation.

More than 8 out of 10 manufactured homes placed in 1998 were titled as personal property, or chattel (U.S. Bureau of the Census 1998). The word derives from “cattle” and denotes property that is movable and personal, like cars, furniture, and clothing. Chattel is the opposite of real estate, which is fixed and immovable. Chattel generally has a shorter life and is more rapidly consumed than real property. By contrast, a manufactured home is essentially fixed and is not necessarily consumed any faster than other housing.

To finance, record, and tax manufactured housing as personal property is a technical miscategorization with real consequences. Whether property is fixed and immovable has obvious implications for using a home as collateral, for example. Lenders may joke about how a manufactured home might go rolling down the road one night and disappear, but the joke is partly grounded in the legal treatment of these homes.

Advocates should work toward classifying every home as real estate. Bringing manufactured housing unambiguously into the world of real housing would improve owners’ access to resale markets and financing and contribute to the accumulation of wealth. Proper classification would also extend the legal protections of real estate occupancy to all owners of manufactured homes, including those who lease land.

States vary widely in how they classify manufactured housing. A few consider all manufactured homes to be real estate, regardless of who owns the land. Most others permit a home sited on the owner’s land to be converted to real property. Eighteen states categorize all manufactured homes on leased land as personal property (HUD and NAHB 2000). The state-by-state patchwork of categorization is itself a barrier to integrating manufactured housing into mainstream markets. Decades ago, the standardization of housing loans across the country made it possible to integrate housing finance with capital markets. Standardization was promoted by federal mortgage insurance and secondary market agencies (Williams 1983). Likewise, real estate brokerage systems, appraisal, and assessment methodologies operate uniformly to benefit conventional home buyers and sellers nationwide. We need to promote and codify an understanding that manufactured housing is not mobile, not chattel, not disposable, and not a special case. Once their houses are classified and recognized as real housing, residents of manufactured homes will have much better access to our system of incentives and support for homeownership.

Every housing advocate knows the gospel about homeownership as the transformation that gives a family a real stake in the community, with stabilizing spin-off benefits for everyone. This idea goes back a long way. If we believe it, we should ask ourselves why it is acceptable to overlook millions of owner-occupied, depreciating homes that are cut off from the rest of the housing stock in a parallel legal universe.

Effects of the legal/policy framework

Discriminatory treatment of manufactured home residents flows from the unexamined matrix of law, finance, taxation, land use regulation, and custom within which manufactured housing exists. It is a matrix to which the industry has profitably adapted, and its continuation is supported by inattention from housing leaders. The combined effect of these policies is to drain wealth from owners of manufactured homes and block their access to the housing subsidies, tax benefits, resale institutions, financing, and legal protections that site-built owners take for granted. Examples of these discriminatory policies are:

1. Even when homes are placed on the owner's land, personal property mobile homes are subject to relatively rapid repossession proceedings if owners fall behind on payments. Owners of site-built homes benefit from extensive protections under real estate foreclosure laws.

2. Owners of personal property manufactured homes have less access to affordable refinance, home improvement, and equity lines than site-built owners.

3. To sell a chattel manufactured home, owners usually have to offer it "by owner," since most real estate brokers sell only real estate. This depresses resale value.

4. Property tax authorities typically apply depreciation schedules automatically to manufactured housing, unlike site-built homes whose tax valuations usually increase over time. The resale price data supporting increased real property valuation are usually not collected for manufactured housing.[11]

5. If an owner violates the terms of a lot lease or is evicted, after a relatively short period of time a park owner may be able to keep or sell the home.

Consumers are not the only potential beneficiaries of the needed change in classification. Local governments and school districts have been understandably wary of manufactured housing from a fiscal standpoint. Since these relatively low-valued units often shelter households with

[11] This is changing in North Carolina, where the Department of Revenue is encouraging local tax assessors to begin collecting actual market values of manufactured homes. Preliminary data show some appreciation in values.

Figure 1. **Fiscal Hierarchy of Land Uses**

(+) **Municipal Breakeven**	Research Office Parks Office Parks Industrial Development High-Rise/Garden Apartments (*Studio / 1 Bedroom*) Age-Restricted Housing Garden Condominiums (*1–2 Bedrooms*) Open Space
(–) **School District Breakeven** **(+)**	Retail Facilities Town Houses Expensive Single-Family Homes (*3–4 Bedrooms*)
(–)	Town Houses (*3–4 Bedrooms*) Inexpensive Single-Family Homes (*4+ Bedrooms*) Garden Apartments (*3+ Bedrooms*) Mobile Homes

children, they can be a drain on local budgets, as illustrated in Burchell's Fiscal Hierarchy of Land Uses (Burchell 1998) (figure 1).

Although fiscal impact is an important reason for community resistance, the fact that mobile homes are a losing proposition for municipal budgets is a direct result of their affordability. If we could wave a wand and create a site-built home for the same price, it would occupy the bottom rung of the ladder as well.

However, over time the assessed valuation of the low-priced site-built home would likely be increased, preventing even greater losses to the local budget. By contrast, many tax systems automatically depreciate manufactured homes like vehicles, regardless of their actual market value. This practice worsens the budget drain.

Recognizing the real character of manufactured housing contributes to the asset base of an entire community. For example, the tax assessor of Henderson County, NC, decided to begin taking manufactured homes seriously in the early 1990s. Once values were established, the assessor determined that the use of depreciation schedules had systematically undervalued this stock of residential property. The result was a $53 million increase in the tax rolls over two years.

In the process of raising property taxes for so many manufactured home dwellers, the assessor and his staff found themselves assuming a consciousness-raising role. They repeatedly had to explain to concerned taxpayers that a “trailer” is something you haul around behind a vehicle and that their increased valuation was based on the actual market value of a *home* that happened to have been built in a factory.

Low- and moderate-income people should not be left to learn about asset-building and the meaning of homeownership from their tax assessor. The protests from mobile home dwellers confirm what our housing system has inculcated in them: that their housing is a depreciating asset, like a vehicle. How many buyers of conventional homes would trade a lower annual property tax bill for depreciating home value?

Too many owners of manufactured housing accept the conventional wisdom that their form of housing is uniquely handicapped in its potential for appreciation. They may accept the “reality” that they are using up their housing every day they live in it, while the rest of us have our cake and eat it too, enjoying shelter and appreciation in value at the same time. This perception of manufactured housing contributes to a self-fulfilling prophecy about long-term value by discouraging maintenance, deterring legal conversion to real estate, and making long-term leases or permanent integration with the site uninteresting.

If owners, lenders, planners, real estate agents, and tax assessors all concur that manufactured housing must depreciate, then surely buyers will agree and make it so. Housing advocates need to help sort out the details of this housing form that starts out as personal property but delivers shelter like any other home.

Conclusion

Clearing up misperceptions about manufactured housing and addressing the problems of buyers, owners, and renters should be the first priority for advocates. On a separate front, it should be possible to incorporate the cost advantages of manufactured homes into nonprofit housing developments (Wallis 1991). If stereotypes can be overcome, the nonprofit development community could eventually help reinvent manufactured homes as quality, wealth-building, affordable housing.

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