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MANUFACTURED HOUSING: THE UGLY DUCKLING OF AFFORDABLE HOUSING

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Key Takeaways

- Manufactured housing quietly provides deeply affordable starter homes at an average construction cost under $90,000, but is easily excluded by some communities.
- Manufactured housing remains a grievously underutilized, deeply affordable housing resource in Rust Belt cities with low land prices, and in rural areas in northeastern states
- Recent HUD code liberalization will open the possibility of introducing manufactured homes to cities with high land prices for the first time–if cities and states also lift their bans.
- Allowing manufactured homes to compete evenly with site-built is good for consumers and home-owners seeking housing solutions that fit their needs.

Most pro-supply housing policy discussions focus on high-opportunity, high-land-cost metro areas. Talk of a "housing crisis" tends to privilege expensive coastal cities such as Boston and San Francisco. In these areas, the combination of strong labor markets and tight restrictions on homebuilding drives median home prices to more than double the costs of construction. That means growth control laws and land costs are the most immediate problems for policymakers in those areas to address — construction costs hardly matter when construction is impossible.

The coastal housing problem is spreading, but most Americans still don't live in these places. For example, more Americans live in rural areas than in all of Canada or California. Even in metropolitan areas, most U.S. metros still have median home prices within 125% of construction costs — meaning that construction costs, not land costs or growth controls, are "in the driver's seat" for home prices.

For most Americans, construction costs and construction productivity are the keys to housing affordability — and that makes these issues important to address in parallel with the better-known coastal housing crisis. Unfortunately, from 1987 to 2016, single-family residential construction productivity increased only 12 percent. More encouragingly, multifamily construction productivity roughly doubled in the same time period. But site-built construction overall, and single-family home construction in particular, remains highly resistant to automation.

Enter manufactured housing, the often maligned and more often forgotten housing type quietly providing 8.4 million affordable homes across the country. Today's manufactured homes are not your grandma's vacation trailer or 1970s-era mobile home. Modern manufactured homes have strict standards for structural integrity, material durability, and safety.

Manufactured homes are just that — homes manufactured on an assembly line inside a factory like a car or an airplane. This controlled environment allows greater efficiency compared to site-built homes where workers need to perform their duties in all weather conditions and sometimes awkward positions. Because manufactured homes are built indoors workers can operate more efficiently and safely. Another benefit to indoor construction is that the homes are not exposed to the elements until they are complete. Perhaps most uniquely: manufactured housing may offer the factory-floor automation and steady productivity growth that we expect from other mass-produced goods to bring down costs and improve quality over time.

How are manufactured homes regulated?

As with all housing, regulation of manufactured homes is split between two separate codes. The first is the building code, governing the health, safety, and energy efficiency details of the structure. Second is the zoning code, regulating height, floor area, yard size, lot coverage, setbacks, and other arcane aspects of growth-controlling land use regulation.

Since manufactured homes can travel in interstate commerce, their building code is uniquely regulated at the federal level by the Department of Housing and Urban Development under the so-called "HUD code"--instead of by the states. This code establishes a national standard for manufactured homes for safety, energy efficiency, weatherproofing, and other design elements.

Matters are different when it comes to zoning codes. Here, manufactured homes remain subject to state regulation — which in practice is often delegated to municipalities. As a result, the same zoning laws that ban multifamily apartments also typically ban or tightly limit HUD-code homes.

How are manufactured homes excluded from communities?

Uniform national standards make scale economies and automation possible — but also make manufactured homes easy for discriminatory communities to exclude by tightly regulating their unique design elements in the local zoning code. These elements include, but are not limited to, a steel chassis that stays with the home after installation and, until recent new innovations in design, a distinctively low-pitched roof. These "telltales" allow local governments to restrict manufactured homes and their residents to disfavored areas such as a small number of designated mobile home parks or to ban them entirely.

Why do communities exclude manufactured homes? It is the same class-based discrimination that causes local regulators to exclude apartment buildings, and their residents. Manufactured housing bans do the most damage in exurban and rural areas, where they persist far from media scrutiny, certainly compared to recent scrutiny of apartment bans in big cities.

Financing and titling are another challenge for manufactured home adoption. Many states, such as New York, treat manufactured homes like cars or boats — not like real estate — when it comes to ownership. This means they are titled through the state department of motor vehicles or secretary of state's office. This "chattel property" method is in contrast to "real property" ownership of traditional land and structures, which are titled through a county register of deeds or equivalent office. While this legal distinction may seem trivial, it radically shrinks the financing products available to the homeowner.

Typical site-built homes have the most generous (and federally-backed) financing options available, with loan terms as long as 30 years and minimal down payments. Loans for manufactured homes are less generous. A typical loan for a manufactured home titled as a vehicle will have an interest rate 0.5% to 5% higher than a conventional mortgage. In states that allow manufactured homes to be classified as real estate, manufactured homes that are permanently secured to the ground are eligible for financing that operates more like a traditional mortgage. Federal Housing Administration (FHA) Title I loans, for example, have terms as long as 25 years and are available for amounts up to about $92,000.

How can policymakers level the playing field?

Congress:

Congress can preempt local regulations that unduly restrict manufactured homes, as it has already done for building codes. Laws like New Jersey's ban on manufactured homes outside designated mobile home parks could be preempted as unreasonable constraints on interstate commerce. Congress can also lift the regulatory requirement that HUD code manufactured homes remain on a mobile chassis even when permanently affixed to the land. This will allow frames to be reused and reduce the cost of each manufactured home. Finally, Congress could go further still by leveraging novel proposals like the HOUSES Act proposed by Senator Mike Lee (R-UT) to require states and local governments to allow manufactured homes on land transferred to them by the federal government.

HUD:

HUD can extend its work with the manufactured housing industry and other stakeholders in its Manufactured Housing Consensus Committee (MHCC). Recent proposed rule changes developed with MHCC input have made the HUD code more accommodating of novel designs and other innovations to suit more environments beyond traditional mobile home parks and rural homesteads — and there's more to be done.

HUD can also assess discriminatory zoning treatment of manufactured housing as a compliance criterion in HUD's Affirmatively Furthering Fair Housing rule. (HUD can deny federal funding to jurisdictions that fail to affirmatively further fair housing for protected classes).

State Governments:

At the state level, governments should allow manufactured housing to be titled as real property — not classified as chattel property simply because of construction methods. Fixing the titling problem will help owner-occupant manufactured home financing — since manufactured homes titled as mortgageable real property can access all the financing already available to site-built homes today.

State-level fair housing laws layered on HUD's AFFH rule, where they exist, should similarly consider discriminatory treatment of manufactured housing in their local fair housing evaluation criteria. Last, states should consider modifying local control of manufactured housing bans, including preempting the local power to ban them from residentially zoned land. State-level preemption has proven necessary thus far to broadly re-legalize other classic "starter home" typologies like accessory dwelling units.

FHA, FHFA, and the GSEs:

The federal government directly operates the Federal Housing Administration, a division of HUD, to insure residential mortgages. The independent Federal Housing Finance Agency regulates the so-called government-sponsored enterprises (GSEs) — Fannie Mae, Freddie Mac, Ginnie Mae, and the Federal Home Loan Banks. This alphabet soup of Cabinet agencies, independent federal regulators, and federally-sponsored corporations govern the securitization plumbing of the secondary market for mortgages. Together, they directly shape lending guidelines for FHA and GSE conforming loans on site-built and manufactured homes. FHA and GSE loan terms should be uniform for all real property homes regardless of construction method. Until state-level titling reform allows manufactured homes the mortgage options available to site-built real property, FHFA and the GSEs should continue to explore pilots allowing chattel loans for manufactured housing to be securitized, insured, and resold the same way traditional mortgages are.

Future of the industry

Many in the manufactured housing industry understand that growth in new markets lies in breaking out of the traditional mobile home park mold–though without disparaging or banning that classic approach, either. Manufactured housing could be used as an infill solution to renew aging housing stock in legacy cities where home values are below the replacement cost of site-built homes, or where housing is needed faster than site-built construction methods can achieve. Though popular and liberally permitted in low-income rural areas of the South and West, manufactured housing remains strangely neglected and harshly regulated in the rural Northeast and in Rust Belt cities with similarly low incomes and land prices.

Industry stakeholders say new subdivisions where homeowners own both the home and the land are another growth opportunity. While leveraging the scale economies of the existing park model built on rented land, these new developments would be designed and delivered as real property in new subdivisions indistinguishable from traditional site-built developments. This would allow manufacturers to deliver homes at scale with an ownership model more favorable to middle-class families looking for a product they typically expect only from site-built subdivisions.

Finally, HUD's recent proposed rule would allow multi-unit manufactured homes that could meet acute housing needs in a hurry, such as after a disaster or in the crunch for worker housing that occurred during the Bakken oil boom in North Dakota. This new permission to build up to three-family manufactured homes might also open opportunities in metropolitan areas with higher land costs — at least if state and local land use regulations allow — because more units could be sold on a given plot of land.

Conclusion

Manufactured housing has long mattered most in low-income and rural areas with low land prices. In states with the most liberal regulatory treatment of manufactured housing, concentrated in the South and West, manufactured homes supply between 20 percent and 60 percent of all new single-family homes.

Policymakers in metropolitan areas with higher land prices, by contrast, have long considered manufactured housing an afterthought — a product suited only for places like rural Mississippi where land is nearly free. True, a $90,000 single-family HUD code home on a $1 million lot in San Francisco will still cost $1,090,000. But most metro area land prices in America still are not as high as San Francisco's–and HUD's new permission for 3-family manufactured homes means that it's now possible (where local law allows) to spread land costs over more units.

HUD's action is necessary but not sufficient for success — cities and states will have to lift their own bans on 3-family HUD code homes too. It's time to update how we think about manufactured housing and lift state and local bans on it not only in rural areas, but in our cities, too.