



RURAL  
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NOTE

# PRESERVING AFFORDABLE MANUFACTURED HOME COMMUNITIES IN RURAL AMERICA: A CASE STUDY

Housing Assistance Council



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Housing Assistance Council  
1025 Vermont Avenue, N.W.  
Suite 606  
Washington, DC 20005  
202-842-8600 (voice)  
202-347-3441 (fax)  
hac@ruralhome.org  
www.ruralhome.org

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HAC, founded in 1971, is a nonprofit corporation that supports affordable housing efforts in rural areas of the United States. HAC provides technical housing services, loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services. HAC is an equal opportunity lender.

## **PRESERVING AFFORDABLE MANUFACTURED HOME COMMUNITIES IN RURAL AMERICA**

Manufactured housing is an important yet often overlooked segment of our nation's housing stock, especially in rural communities. Despite its importance to the American housing sector, there is a dearth of information on manufactured housing, particularly for homes in community or land-lease settings. The Housing Assistance Council (HAC) presents a case study highlighting the process one rural manufactured home community undertook to convert from investor to cooperative resident ownership.

### **A Brief Overview of Manufactured Housing Issues and Trends**

#### ***The Face of Manufactured Housing***

There are approximately 7 million occupied manufactured homes in the United States, which make up about 7 percent of the nation's housing stock. This type of housing is especially important to rural America. More than half of all manufactured homes are located in rural areas. While the demographics of manufactured housing are expanding, households residing in manufactured homes are still primarily those at the lower end of the income spectrum. The median annual income of households residing in manufactured housing is \$30,000, nearly 40 percent less than that of households not living in manufactured homes. In turn, manufactured housing is often characterized as much by the people who inhabit these units as by the structures themselves. Negative images and stereotypes of manufactured homes, or "mobile homes" or "trailers," have been shaped in part by the fact that, historically, lower-income households have resided in this form of housing.

#### ***An Evolving Housing Stock***

Modern manufactured homes evolved out of the automobile industry and recreational travel trailers. Today, manufactured homes encapsulate a broad spectrum of housing styles, systems, and arrangements. The factory-built homes of the 21st century are not the trailers of the 1960s and 1970s. Construction standards for manufactured homes have improved markedly over the past few decades, producing homes of greater quality, size, and safety. Some new manufactured homes are virtually indistinguishable from conventionally constructed single-family units. However, it is equally important to recognize the existing stock of older manufactured or "mobile homes." It is estimated that approximately one-fifth of currently occupied rural manufactured homes were built before 1975, the year before the HUD-code was implemented. These older units are likely to be smaller and less safe, as well as having fewer amenities and less investment potential, than newer manufactured homes.

### **The HUD Code**

*One determining factor in the designation of a “manufactured home” is whether the unit was built before or after June 15, 1976. This date marked the implementation of the Manufactured Home Construction and Safety Standards Act (42 U.S.C. sections 5401-5426), commonly referred to as the “HUD Code,” to regulate the construction of manufactured homes. The U.S. Department of Housing and Urban Development (HUD) developed and administers the code that implements the statute. These federal standards regulate manufactured housing design and construction, strength and durability, transportability, fire resistance, and energy efficiency. The HUD Code evolves over time and has undergone several major modifications since 1976.*



### **Purchasing and Financing Manufactured Housing**

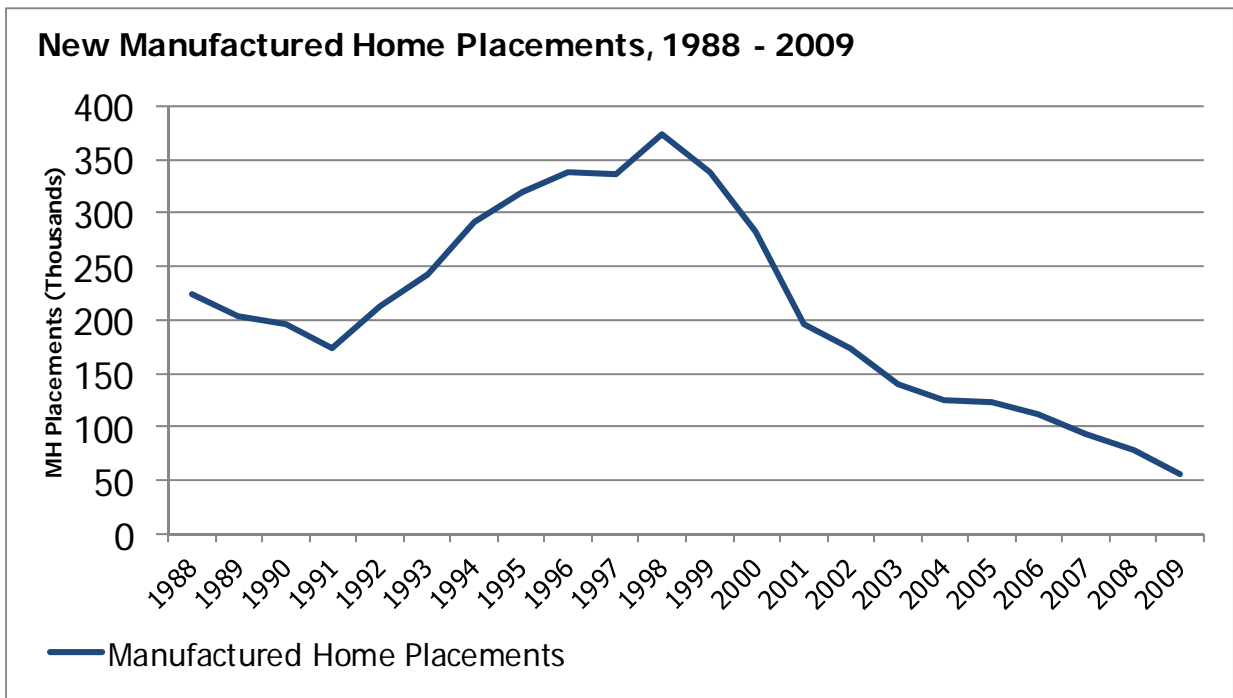
While the physical and structural attributes of manufactured housing have improved, peripheral elements related to the sale, financing, appraisal, and placement of this type of housing have not progressed as well. Today the majority of manufactured homes are still financed with personal property or “chattel” loans. With shorter terms and higher interest rates than more conventional mortgage financing, personal property loans are generally less beneficial for the consumer. These financing issues are often exacerbated by the sales system commonly used for manufactured homes. Manufactured homes are typically sold at retail sales centers, where salespersons, or “dealers,” receive commissions. In some cases, dealers resort to high-pressure sales tactics, trapping consumers into unaffordable homes.

***Land Tenure and Manufactured Housing***

Although manufactured homes are constructed with design features that allow them to be mobile, most of these units remain stationary after their initial placement. These design factors, combined with a history of being placed on rented land, have developed a pattern of land tenure status that is unique to this form of housing. Ownership of land is an important component of nearly every aspect of manufactured housing, ranging from foundation types used, to the quality of financing, and ultimately to assets and wealth accumulation. Residents who do not have control over the land on which their home is placed often have reduced legal protection. It is also well established that ownership of land is at the heart of property value and is essential for potential appreciation of value in manufactured homes.

***Recent Market for Manufactured Housing***

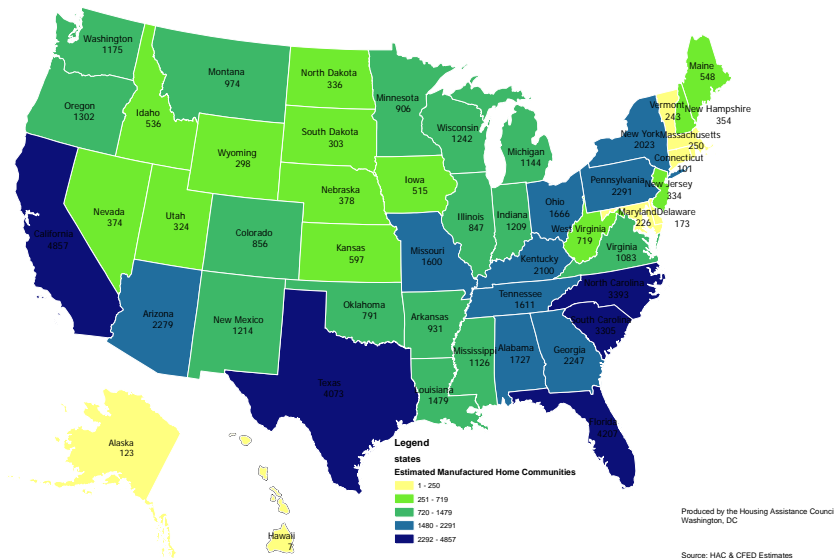
The nation’s current housing woes are surprisingly reminiscent of what happened in the manufactured housing industry in the early 2000s. After experiencing dramatic growth throughout much of the 1990s, sales and shipments of manufactured housing have spiraled downward into a sustained slump. Much of this decline was precipitated by the overextension of risky financing that backfired after record high foreclosure and repossession rates produced a glut of manufactured units, which depressed the market. Shipments of new manufactured housing units are at their lowest levels in decades, and many large manufacturers and retailers have exited the market or declared bankruptcy.



## MANUFACTURED HOME COMMUNITIES IN RURAL AMERICA

Land-lease manufactured home communities, often referred to as “mobile home parks” or “trailer parks,” are home to over 2.6 million households.<sup>1</sup> While there are no exact figures, the Housing Assistance Council estimates that there are approximately 60,000 manufactured home communities in the United States (HAC 2010).<sup>2</sup>

**Manufactured Home Communities by State (Estimates)**



Contrary to popular perception, most manufactured homes are not located in park settings. According to the 2009 *American Housing Survey* (U.S. Census Bureau 2010a), roughly 34 percent of manufactured homes are located in such communities. However, the proportion of manufactured homes located in communities varies by geographic region. In the Northeast, for example, 45 percent of manufactured homes are located in communities, while in the South the figure is approximately 28 percent.

<sup>1</sup> Much of the information in this section derives from HAC tabulations of the 2009 *American Housing Survey* (U.S. Census Bureau 2010a).

<sup>2</sup> State government listings of manufactured home communities are the primary source of data for the manufactured home community estimates. Roughly half of states made data available from which to construct a directory of manufactured home communities. In states where no public (state government) directories of manufactured home communities exist, aggregate estimates were derived from alternative data sources to supplement missing information.

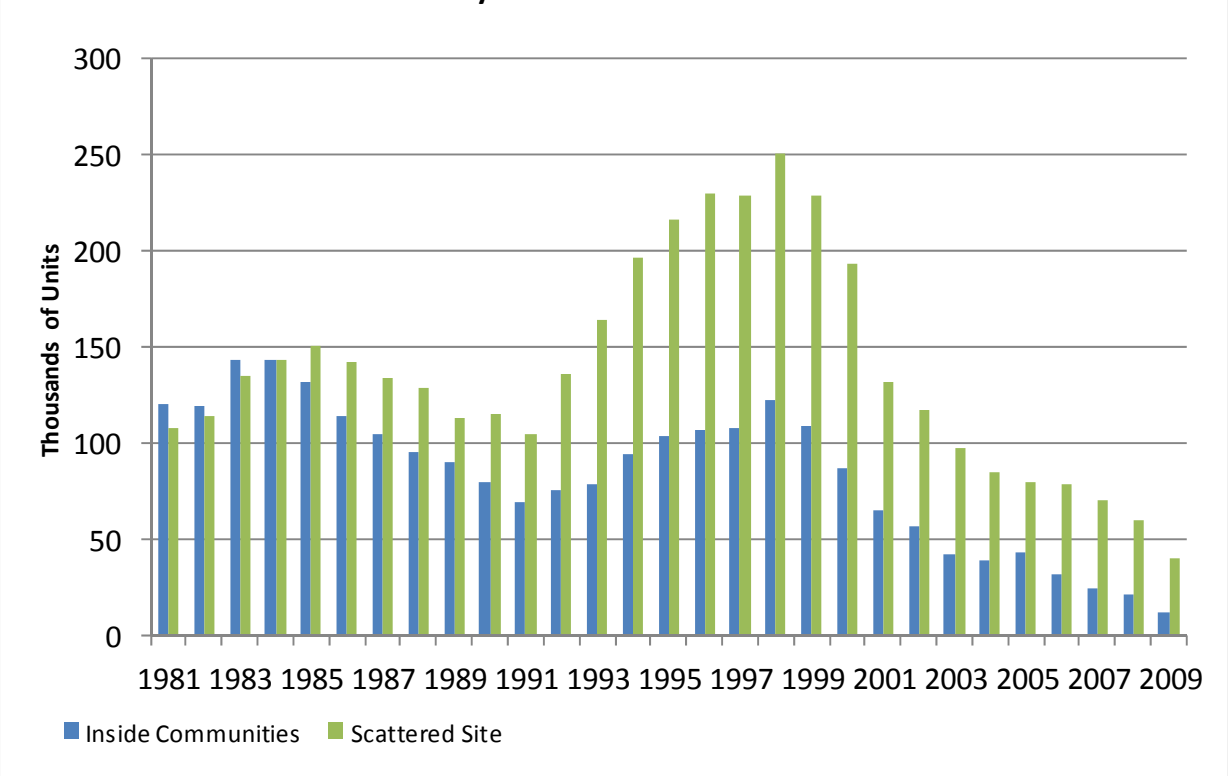
Among manufactured homes located in communities, 80 percent are owned by their inhabitants; however, only 14 percent of park residents also own the lot on which their unit is placed. Households that reside in community settings have lower incomes and are more likely to be elderly than their counterparts residing in scattered-site manufactured homes.

Housing units in manufactured home communities are typically older than those situated individually; nearly one-quarter of park units were built before 1975. Manufactured homes in these communities are also smaller, with a median size of 980 square feet compared to 1,120 square feet for those located outside parks. The smaller home size in parks is partly because many older manufactured housing communities can accommodate only single-section units.

Manufactured home communities vary widely in arrangement and quality. Some communities are small, with few lots on which to place a unit and receive utility services, while others accommodate hundreds of units in high density. Some communities offer a range of amenities including recreational facilities and programs. Some were developed for retired persons and offer services specific to their needs and wants, including security, few maintenance responsibilities, and leisure opportunities (Warner and Eleishe 1993; Manufactured Housing Institute 1994). Some local zoning laws, especially in and near metropolitan areas, have effectively restricted manufactured housing to placement in parks.

The number of manufactured homes being placed on scattered-site lots has eclipsed those being placed in communities over the past few decades. In 1981, 51 percent of all newly produced manufactured homes were placed in community or park settings. In 2009, only 23 percent of new units were located in communities (U.S. Census Bureau 2010b). Additionally, the U.S. Government Accountability Office's recent report on the FHA Title I program (2007) indicated that very few new manufactured home communities are currently being developed.

**Manufactured Home Placements by Location 1981-2009**



Among the disadvantages of placing units in a manufactured home community is a lack of autonomy and, in some cases, reduced legal protections. Several common problems faced by residents in manufactured home communities include excessive rent increases, park closures, poor park management and maintenance, restrictive rules, and restricted access to municipal services. Furthermore, owners of manufactured homes in communities are vulnerable and often lack recourse when problems arise because moving their unit may be prohibitively expensive.

Several states and jurisdictions have enacted special protections for residents of manufactured housing communities, but these vary widely. According to a recent analysis by AARP (2004), at least 15 states have no manufactured home park statutes at all. Rent controls, advance eviction notices, and first right of refusal to buy a community are important protections. In many states the legal status for manufactured housing community residents is similar to that of apartment renters, who may be evicted with only 30 days' notice.



### **Community Closures**

A recent development within manufactured housing communities is a dramatic increase in the number of community closures. In many instances, such closures are driven by an increase in land values that allows higher rents or income from the sale of land. Communities are also closing in declining or unprofitable housing markets due to lack of revenue or viability.

Whatever the cause, closures of manufactured home communities have hit epidemic levels in some areas. Exacerbating the negative impacts of closures are weak legal protections for tenants and prohibitively high relocation costs. The combination of these factors is threatening an already vulnerable population residing in one of few affordable housing resources in this nation.

### **Preserving Affordable Rural Manufactured Home Communities**

At the local level, manufactured housing has often been met with resistance and, at times, vehement opposition. Nevertheless, improvements in the quality of manufactured housing are leading some nonprofit organizations and developers to consider using manufactured housing to create affordable housing. Nationwide, several community-based organizations are using manufactured homes to provide and preserve affordable, sustainable housing while avoiding the pitfalls associated with manufactured housing purchase and financing. This “manufactured housing done right” model has been largely coordinated under the Corporation for Enterprise Development’s (CFED’s) Innovations in Manufactured Housing initiative, known as I’M HOME. Through its nationwide network of national and local partners, I’M HOME seeks to install high-quality manufactured homes, help homeowners in manufactured housing communities secure long-term control over the land beneath their homes, advocate for public policies that help owners of manufactured homes, and promote access to fair and responsibly priced mortgage financing for manufactured housing (CFED 2011).

## **ROC USA™**

*The I'M HOME initiative helped create ROC USA, LLC, a nationwide nonprofit organization that assists residents who wish to buy their manufactured home communities from existing owners by forming a cooperative. ROC USA is a relatively new organization that emerged from decades of successful cooperative conversions and manufactured housing initiatives at the New Hampshire Community Loan Fund within the state of New Hampshire.*

*To promote and preserve affordable manufactured home communities, ROC USA™ provides two basic services to make resident ownership a viable opportunity for homeowners. First, when a manufactured home community is for sale, ROC USA has affiliated organizations that serve the technical and training needs of newly formed co-ops. These technical assistance partners help prospective community members access local legal counsel; develop budgets; and secure a purchase contract, financing proposals, and funding for studies. They help the democratic co-op association with all of the steps necessary to make an informed choice about buying the manufactured housing community within which the members of the association live.*

*Second, ROC USA has capitalized a subsidiary, Resident Ownership Capital, LLC to provide community purchase financing that co-ops need. Resident Ownership Capital (d/b/a "ROC USA Capital"), which participates in loans with other commercial lenders, state housing finance authorities, and non-profits, is certified by the U.S. Department of the Treasury as a Community Development Financial Institution. ROC USA Capital's financing product provides for the purchase price and closing costs of the co-op so that membership shares in the co-op are low cost. This ensures open access to membership for all homeowners in the community, and eventually aligns the ownership interests among all homeowners in a community. This component – what its president calls "whole community development" – is central to ROC USA's standardized ownership model and financing product.*

*Further, ROC USA's affiliated local and regional TA Providers provide communities with post-purchase training and coaching for at least ten years (in most cases) and it supports community leaders through management guides and a national leadership institute. ROC USA focuses on "home in community" financing opportunities for resident-owned communities it assists. As demonstrated in the New Hampshire market, the ROC USA model has been accepted by conventional residential( home) lenders – including Fannie Mae, the state Housing Finance Authority, and USDA – as a model of ownership and environment that meets their needs for safe and secure lending. ROC USA is actively working to leverage conventional and chattel lenders in other markets to serve this emerging co-op sector.*

*ROC USA primarily serves as a nonprofit lender in this capacity, often providing "gap" financing for down payments that commercial banks will not cover (ROC USA 2009).*

## **CASE STUDY: FINANCING A COOPERATIVELY OWNED RURAL MANUFACTURED HOME COMMUNITY**

### **Green Acres Cooperative, Kalispell, Montana**

The following case study highlights the process, financial considerations, and actions taken in the course of the resident purchase of a manufactured home community in rural Montana. The previous owners chose to sell the property to the residents to benefit from new legislation in Montana that provides tax credits to sellers of manufactured home communities to their residents. A primary component of the cooperative conversion was a participation loan approval to ROC USA™ Capital, LLC from the Housing Assistance Council (HAC) to assist in the acquisition of Green Acres Court. Green Acres, located in Kalispell, Montana, is a 32-unit manufactured home community that was purchased by its residents in August of 2010.

### **Green Acres Court: The Community, Property and Market**

Green Acres Court is located in the county of Flathead, just outside the city limits of Kalispell, Montana. Flathead County has 62 licensed manufactured home communities. There are 38 communities located in and near the city of Kalispell. Of these 38 communities, 16 are considered small and have an average of only five homes. Several manufactured home communities in Flathead County have recently been sold for redevelopment. The closing of a 132-unit community in the nearby Town of Whitefish resulted in displacement of 130 low- to moderate-income families.

Green Acres was originally developed in 1973. The 4.35-acre community contains 32 manufactured home-sites, a well-house, and a storage building. The homes in Green Acres were built between 1971 and 1999. They are generally well maintained, and the community is neat, orderly, and quiet. It is considered to be in above-average condition. Thirty of the 32 homes are owner-occupied. Two homes are currently community-owned and rented to the occupants. Two of the 32 units are multi-section homes, and the remainder is single-section homes.

In preparation for the purchase, a household demographic survey was conducted. Residents of the community were predominantly white and spoke English. One-third of the homeowners were seniors. Two households included a person with a disability, and two had a single woman as head of household. Ninety-one percent of households (all but 2) earned below 80 percent AMI, with 17 households, or 73 percent, reporting incomes at 60 percent or below. Average reported income of the homeowners was \$19,500.

Seventy-seven percent of those surveyed reported being income earners over 40 years of age. This profile indicated people with established work histories and significant earning potential.

The residents of the community were largely stable, with approximately two-thirds of households having lived in the community for at least 4 years. The average family had resided in the community for six or more years, not including one family that had lived there for 40 years.

### **Starting the Resident Purchase Process**

The homeowners of Green Acres started meeting regularly in November 2009. In June 2010, 16 of the 30 homeowner households executed subscription agreements and were recognized as full members of the co-op. By the time of the purchase, 20 of the homeowner households had become full members. The sign-on fee was \$25 and the one-time subscription fee was \$225. The seller transferred residents' security deposits to the co-op, and these served as equity payments under the subscription agreement.

For this community, NeighborWorks Montana (NWMT) serves as the ROC USA Network "certified technical assistance (TA) provider." Green Acres Court is the third community NWMT has organized for resident ownership. In 2008, prior to its involvement with Green Acres, NWMT took title to a 32-site community called Mountain Springs in Red Lodge, Montana. Due to the high infrastructure needs of this community, NWMT purchased the community on behalf of the residents while assisting with redeveloping the community through infill homes and new infrastructure. The project is on schedule and title is expected to be transferred to the homeowners in 2011. NWMT is also assisting residents of a 48-site community in Great Falls called Missouri Meadows in the negotiation of a purchase contract.

NWMT provided an unsecured predevelopment loan to the co-op for engineering services including a property conditions report and environmental site assessment, and associated legal fees. The co-op maintains a two-month operating reserve, a one-month debt service reserve, and a five percent replacement reserve as part of its lot rent structure. This structure also supports a bookkeeper at five hours a month, a maintenance supervisor, snow plowing, road maintenance, septic system pumping, and trash collection.

### **Making the Resident Purchase Work**

The cooperative incorporated in January 2010 as a public benefit corporation under the Montana Nonprofit Corporation Act. Through this process the co-op developed a board of directors, filed its articles of incorporation, and provided education and training that resulted in 20 of the 30 resident homeowners signing subscription agreements. In addition, the co-op negotiated a purchase agreement with the seller; commissioned the property conditions report, engineering study, and appraisal; and received approval for Community Development Block Grant (CDBG) funds to subsidize the purchase.

Elements of pre-purchase technical assistance provided by NWMT included:

- guidance through the resident ownership conversion process, including community education and training, financial analysis, and development checklist;
- preparation for negotiations with the seller;
- referrals to interested attorneys who had demonstrated experience in pertinent areas of law;
- legal documents, including articles of incorporation, by-laws, subscription agreement, occupancy agreement, and membership certificate, all of which were reviewed by the cooperative's attorney;
- assistance with preparing an operating plan for the community;
- assistance in preparing the financial proposal and referring the co-op to a variety of appropriate lenders, including ROC USA Capital, LLC;
- assistance with contracting a property conditions analysis and report and distribution of resident surveys for capital improvement planning and budgeting; and
- assistance in developing the organization along democratic lines, including training leaders in meeting management, decision making, record keeping, and ethics.

### **Financing the Purchase**

In August 2010, ROC USA Capital provided a loan to Green Acres Cooperative for a term of 10 years. Funds for pre-development expenses that had been provided by NWMT were repaid at closing of the acquisition loan. The Flathead County CDBG program provided a grant in the amount of \$190,000. In addition, the seller provided a \$10,000 cash contribution to help pay for surveying and engineering work needed to complete design of a new septic system and submit funding applications to the USDA and Flathead County.

The loan was secured by a first-priority lien on the 4.35-acre site and by collateral assignments of lot leases, lot rents, and reserve accounts.

### **After the Resident Purchase**

Post-purchase technical assistance provided by NeighborWorks Montana for a period of ten years includes help in implementing the operating plan, assistance in developing procedures and policies, and training and education for members and leaders. In addition, NWMT will coordinate networking activities for building links with other resident-owned manufactured home communities. The co-op pays a fee for NWMT's services. In addition, a third-party bookkeeper was hired to provide full-service financial management services.

Prior to resident purchase, lot rent had remained constant for the past three years at \$275 per lot. Upon purchase, the co-op increased the rent by \$15, adopting a lot rent of \$290 for members and \$310 for nonmembers. While there are not many apartments in Kalispell currently marketed for rent, a 2009 rent survey indicated average apartment rent of \$675 in the area, about twice the projected \$290 per month lot rent in the community, making Green Acres Court one of the more affordable housing options in the area.

### **Risks and Benefits Going Forward**

While the Green Acres manufactured home community was successfully converted to resident ownership, there are still risks and challenges to the cooperative's viability and future success. Green Acres Cooperative is a new entity, inexperienced in the practical details of community management as well as larger systemic issues related to cooperatives and cooperative viability. Additionally, the community's on-site septic system, while currently functioning, needs replacement. Finally, in an effort to make the gap financing affordable, an extended term of 10 years with a balloon payment was required.

Yet there are also several important mitigating factors that help reduce risks to the newly formed cooperative. Most notable is the support and coordination from ROC USA, an organization whose staff has decades of combined experience in manufactured housing cooperative conversion and management. Although it is a small community, Green Acres Cooperative is well organized, has demonstrated effective leadership, and has more than 20 residents signed up as member-owners. In addition, the cooperative has strong, ongoing technical support from NeighborWorks Montana. All of these factors reduce overall risk. The septic system risk is being addressed by applications to the USDA's local rural development office and the State of Montana for funding to construct new sewer infrastructure that will connect to the City of Kalispell's municipal sewer system.

## **Lessons Learned**

After much effort, work, and time from residents and supporting partners, the conversion of Green Acres Court into a manufactured home cooperative was a success. It must be noted that the cooperative is less than one year old and its long-term efficacy and impact cannot be fully assessed at this time. Additionally, Green Acres is an individual case, and many of the elements of its purchase and cooperative conversion are unique to this particular development and community. But there are important lessons and findings to take away from this effort. The story of Green Acres Court, while anecdotal, illustrates several common issues and processes that appear during any cooperative conversion.

There are tens of thousands of manufactured home communities across the United States, but cooperatively-owned communities are not common. Inherent in the cooperative conversion process are several components and provisions unique to this form of development. A particularly important component in the Green Acres experience and most successful conversions is the high level of collaboration among several complementary project supporters, including technical, legal and financial assistance providers. Having a core organization like ROC USA, with its 20 years of institutional knowledge, local affiliate in NWMT, and its subsidiary CDFI, which supports the co-op both in development and over time is a significant asset for other organizations, like the Housing Assistance Council, and CDBG, that are supporting specific elements of the co-op's plan.

Undoubtedly, the key component in this or any successful park conversion lies with the homeowners in the community. The homeowners of Green Acres Court organized and committed significant amounts of time and effort in this process. This group of neighbors navigated the maze of requirements, hurdles, and financial challenges over a period of several months. While each manufactured home community is unique, the common components of collaboration, technical assistance, and resident organization and participation are elemental in cooperative conversion. In the end, Green Acres Court was preserved not only as one of the few sources of affordable housing in its rural area but, more importantly, as a community.

**FOR MORE INFORMATION ON MANUFACTURED HOMES AND MANUFACTURED HOME COMMUNITIES**

The Housing Assistance Council 202-824-8600

<http://www.ruralhome.org/storage/documents/movinghome.pdf>

CFED I'M HOME 202-409-9788

[http://cfed.org/programs/manufactured\\_housing\\_initiative/](http://cfed.org/programs/manufactured_housing_initiative/)

ROC USA 603-856-0246

<http://www.rocusa.org/>

Consumers Union 512-477-4431

<http://www.consumersunion.org/mh/>

AARP 888-687-2277

[http://assets.aarp.org/rgcenter/consume/d18138\\_housing.pdf](http://assets.aarp.org/rgcenter/consume/d18138_housing.pdf)

National Consumer Law Center 202-452-6352

[http://www.consumerlaw.org/issues/mobile\\_homes/](http://www.consumerlaw.org/issues/mobile_homes/)



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