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Manufactured Homes: More Attractive Than Ever



By Jack C. Harris and Jeff Carroll

Imagine producing new housing for less than \$30 per square foot (about half the going rate for new homes). Would not such housing be welcomed in a marketplace that is asked to accommodate a growing and increasingly-diverse population? Such housing currently is available in the market and is not the product of some heavily-subsidized government demonstration.

It is *manufactured housing*, a term for factory-produced housing units that are shipped to sites intact (see sidebar). Manufactured housing is expected to become more popular, especially in rural areas. As affordability gets squeezed by regulations and growing demand, however, manufactured units may become more common in the city.

This could mean that real estate agents will increasingly encounter manufactured homes in addition to traditional site-built homes. Ordinarily, a dealer's license is required to sell more than one manufactured housing unit within a 12-month period. However, a unit that is considered a "fixture" to the land can be sold by real estate licensees. For a manufactured unit to become a fixture, it must be permanently attached to a foundation and have a certificate of attachment filed in the public record. Texas law also requires that the document of title or manufacturer's certificate of origin be canceled. (For more information, see "Listing, Advertising Legalities: Mobile Home Dilemmas" reprint 762).

Listing contracts for property containing manufactured units as fixtures—or land suitable for siting a unit—could become more common in rural and suburban settings. There are likely to be more opportunities to market manufactured housing communities. Brokers who deal in land may find a

profitable niche market among manufactured housing community developers as the demand for sites increases. Conversely, agents may find that much of their future competition comes from the sale of manufactured homes. Some within the manufactured home industry think that as much as half of all new homes constructed eventually could be manufactured units.

Significance in the Texas Market

According to the 1990 *Census of Housing*, manufactured housing comprised almost 13 percent of the Texas housing stock. Since that time, the ratio of manufactured home shipments to single-family building permits has steadily increased (see chart). By 1996, manufactured units made up more than one-third of all new single-family dwellings. Furthermore, because manufactured units can be shipped and set up more rapidly than site-built homes, they could provide the means for handling housing shortages. To meet the needs of the more than 20 million Texas residents expected by the year 2000, annual shipments of approximately 30,000 manufactured units will be needed to supplement the 72,000 new single-family units and 31,000 multi-family units built annually.

Price is the primary reason for the increasing popularity of manufactured homes. According to the Texas Manufactured Housing Association, the average price of a new manufactured unit produced in Texas in 1996 was \$34,725 (this price does not include site, sales tax and utility hook-up but does include delivery and installation). During that same period, the average existing home sold through Multiple Listing Services statewide cost \$109,500 (with land), and the average value of a newly-built single-family unit in Texas was \$103,900 (without land).

Manufactured Housing Presence

This table shows the housing stock percentage in each metropolitan area that was manufactured housing in 1990. Also shown is the percentage of all new housing units (building permits plus new manufactured home sales) that were manufactured units in 1994, 1995 and 1996.

MSA	Percentage of Housing Stock		Percentage of New Manufactured Housing Units Produced	
	1990	1994	1995	1996
Abilene	6.1	12.8	22.8	22.6
Amarillo	6.6	29.3	43.9	43.8
Austin	4.3	14.1	12.9	15.4
Beaumont-Port Arthur	8.8	48.5	58.6	63.2
Brazoria	14.4	29.4	23.4	22.1
Brownsville-Harlingen	12.7	10.0	10.1	11.6
Bryan-College Station	8.1	15.2	22.2	16.2
Corpus Christi	4.5	19.9	14.8	16.8
Dallas	3.2	7.8	8.4	9.9
El Paso	5.6	14.9	23.4	17.9
Fort Worth	5.0	14.3	14.3	17.0
Galveston	5.8	12.8	9.0	12.6
Houston	3.8	13.6	17.6	19.0
Killeen-Temple	8.4	34.9	28.2	32.2
Laredo	10.1	20.8	23.7	18.3
Longview	11.3	55.5	58.2	74.7
Lubbock	5.4	19.8	28.2	28.5
McAllen	19.1	13.5	16.0	16.1
Odessa-Midland	11.2	37.0	45.8	51.2
San Angelo	5.5	16.6	34.4	22.7
San Antonio	4.4	14.2	18.8	20.5
Sherman-Denison	9.7	55.7	48.4	66.4
Texarkana	11.8	44.3	53.3	76.5
Tyler	10.0	50.4	57.3	45.6
Victoria	8.0	39.3	44.7	54.0
Waco	5.0	30.4	37.0	42.1
Wichita Falls	5.1	19.6	28.2	26.4
Statewide Average	12.8	23.8	27.5	23.7

Sources: U.S. Census Bureau; Texas Manufactured Housing Association

The comparatively lower price of manufactured homes brings ownership within the financial capabilities of a large number of renters. In the southern United States, renters' 1995 median household income was \$21,140, compared to \$35,400 for homeowners. Therefore, manufactured housing helps fill a growing need for homes and holds promise for raising Texas' relatively low homeownership rate, especially with rental housing vacancies in the state at the lowest level since the early 1980s.

In general, homes are affordable in the sense that about 64 percent of Texas households have enough income to qualify for a mortgage large enough to buy a median-priced home. However, many nonhomeowners still find it difficult to accumulate the cash needed to make a down payment and pay closing costs. Reducing the initial cost of the home alleviates these barriers proportionately. Manufactured housing does this in two ways: lowering the cost of the structure and eliminating the need to purchase land with the home.

Factory-built homes can be produced at a lower cost because of efficient production lines and a lack of weather-related delays. A residential site can add tens of thousands of dollars to the cost of a home, but a manufactured homeowner can place the unit in a leasehold community without having to buy land. Finding affordable avenues to homeownership will be especially important as Texas' newly-forming households are increasingly foreign-born.

The quality of manufactured housing is changing as well, making it more acceptable to both homebuyers and their neighbors. Although factory-produced homes are not subject to local building codes, they must meet a strict federal standard that has improved quality since being instituted in the mid-1970s. The early-style mobile home, resembling a trailer with windows, has given way to units with pitched roofs and exteriors that look more like traditional houses. Double-wide units can be used to avoid the narrow, boxy look (about 46 percent of manufactured units sold in Texas are multiple-width units). Units can be ordered with wood-burning fireplaces, kitchen islands and cathedral ceilings. Site-built additions, such as garages and porches, can give an even more traditional look.

Producing a factory-built home that is less like the early mobile home makes it more acceptable in urbanized settings. New communities have placed limitations, through both zoning laws and subdivision regulations, on manufactured homes and trailer parks because of their association with run-down, low-quality environments. Modular or panelized housing rarely faces such restrictions. Manufactured housing proponents are attempting to overturn local laws requiring factory units to have a truck-like chassis to facilitate transport. Without these chassis, manufactured units could be sited as modular units, broadening the range of location options for owners. In addition, states and localities are increasing the limits on unit size that can be transported on public highways. Wider units allow more traditional-looking designs. There is also a greater variety of manufactured housing communities (replacing the "trailer park") from which to choose, including some with landscaping and community amenities, such as swimming pools. At the same time, site-built homes are becoming more mass-production oriented. It is estimated that 40 percent of all new homes

have some factory-produced components.

Questions About Manufactured Housing

Many prospective homebuyers may find manufactured housing a good solution to their search for affordable homes, provided they can get enough information to make an educated decision. It is expected, however, that many people have pre-conceived opinions, as well as reservations, about manufactured homes. Often, these opinions do not reflect the current reality of the market. Here are some possible concerns that a buyer may have:

If I own a property with an old mobile home on it, can I replace the home without getting a special permit? If the existing home is legally permitted, the municipality that has permitting authority over the site must provide a permit for a replacement unit, assuming the unit was manufactured under the Department of Housing and Urban Development (HUD) code. HUD began enforcing its manufactured housing code in 1976, and any unit produced since that time must conform with the Texas Manufactured Housing Standards Act.

Isn't manufactured housing dangerous? The early "mobile home" had a reputation for being a fire hazard and somewhat flimsy in high winds. Since 1976, HUD has required every manufactured home built in the country to comply with an extensive set of standards. HUD inspects all units to enforce

compliance. Safety is the primary concern of the code. Among the provisions are:

- standards for flame resistance and smoke generation for materials used in the units,
- windows in all bedrooms to allow quick escape,
- smoke detectors and
- unit design capable of withstanding winds as high as 70 miles per hour.

Also in 1994, HUD adopted the American Society of Civil Engineers standard for wind resistance for units sited in coastal areas. These are some of the toughest standards in the housing industry.

The HUD standard supercedes local building codes, but units may be produced that are customized to the codes in the locality where the unit will be sited. Much of a housing unit's ability to withstand wind depends on how well it is attached to its foundation. HUD studies have found that a manufactured home permanently attached to a foundation holds up as well as a site-built unit. A 1998 Texas law requires special siting procedures in 15 coastal counties.

Aren't manufactured houses ugly and not very durable? A manufactured unit will not be mistaken for a custom-built home, but it compares favorably with modest site-built homes closer to its end of the price range. It is now standard to make units that look more like traditional houses rather than like travel-trailers. Various studies have concluded that newer units have a life expectancy of 55 years, compared to about 19 years for pre-HUD code (1976) units. Once a unit is placed on a foundation, it rarely is moved and is often sold with the land or with a land lease assigned to the new owner. The average manufactured home owner moves about once every seven years.

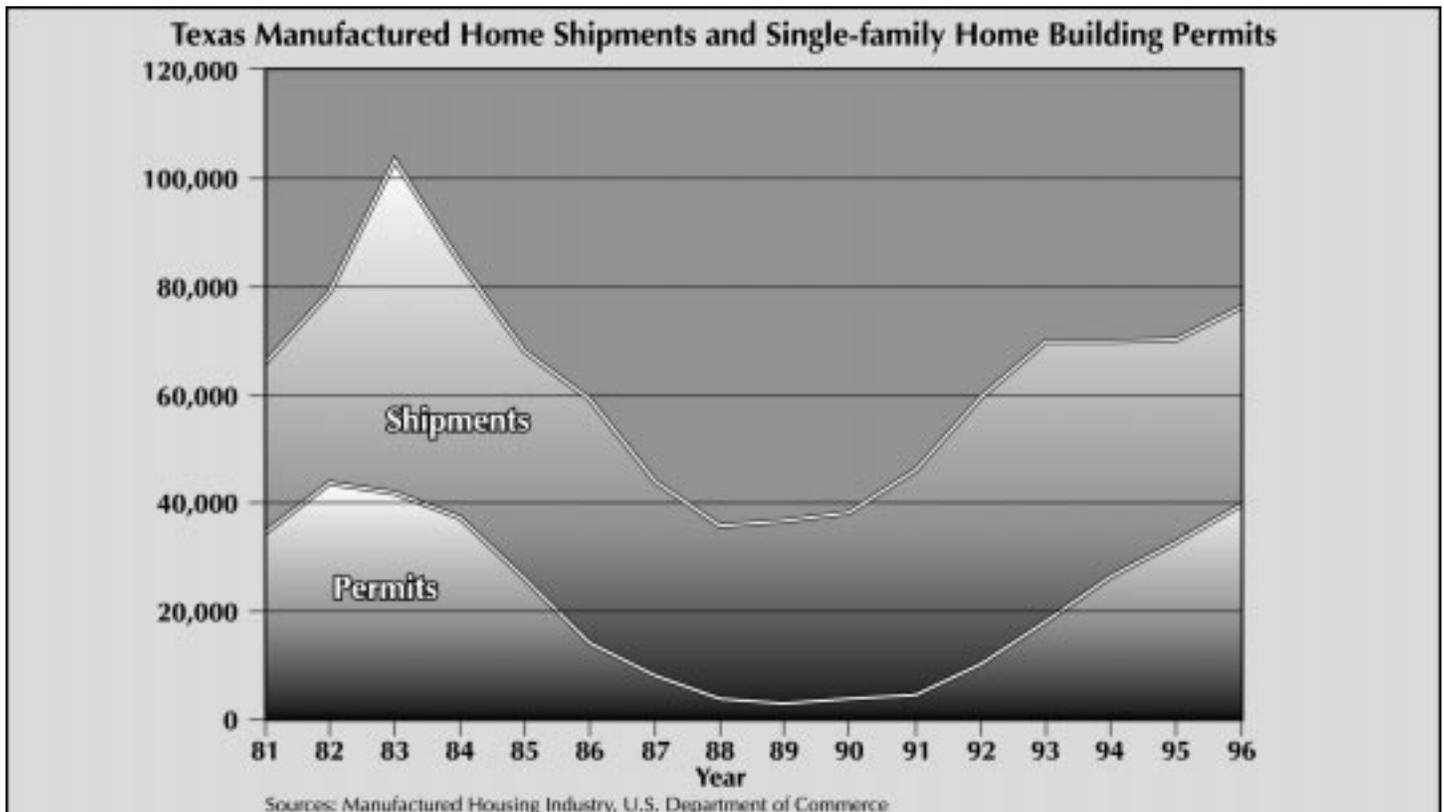
Will manufactured units hold their value, or even appreciate, like a site-built home? With a long life expectancy and an appearance similar to traditional houses, manufactured units should hold value as well as comparable site-built units. Buildings, whether site-built or factory-built, inevitably depreciate as a result of obsolescence, wear and decline in value (although rising construction costs may disguise some of this decline).

At the same time, a site in a desirable neighborhood often increases in value. Whether a home appreciates or declines in value depends on the quality of the location and market conditions, not so much on how the home was constructed. This effect was documented by a recent study at East Carolina University. Researchers found that manufactured homes in three North Carolina counties appreciated at rates comparable to site-built homes when the units were permanently attached to foundations. Results for personal property housing units were inconclusive.

City zoning authorities justify heavy restrictions on manufactured housing on the basis of detrimental effects to surrounding property values. A North Carolina study in the 1980s found no such effect. Site-built homes located near manufactured units were as likely to sell for a price greater than appraised value as those without the presence of such units.

Can you get a loan to buy a manufactured home? The type of financing available depends on whether the unit qualifies as real property (a fixture) under the law. Again, a manufactured house becomes a fixture to real property when it is permanently attached to a foundation. Texas law requires the title for the unit to be canceled and that a certificate of attachment be filed in the public records. If it does not meet this criteria, the home is considered personal property, much like an automobile, and cannot be financed with a mortgage loan. If the unit does meet the criteria, it can be financed with mortgage loans like any other single-family home. Manufactured homes that qualify as real property can be financed with loans insured through Federal Housing Authority (FHA) Title II program, just as site-built homes.

Many manufactured home buyers purchase their unit from a dealer and have the unit transported to a manufactured housing community where they rent a site. These units remain personal property and, therefore, are not eligible for mortgage financing. However, "chattel" financing, similar to an automobile loan, is readily available. Such loans tend to have shorter terms and higher interest rates than comparable mortgage loans, because the loans are considered more risky. On the other hand, personal property loans may be originated more quickly and with fewer closing costs compared to mortgage



loans. The loans are usually originated by the dealer and sold to financial institutions.

The FHA also has a program for manufactured home personal property loans. The loans may be used to purchase the housing unit, a site upon which to locate the unit, or both. A loan under FHA Title I covers as much as 95 percent of the value or cost (whichever is lower) of the home, or as much as 130 percent of the wholesale cost of a new unit. In October 1994, HUD added strict energy conservation standards to its manufactured housing code. Consequently, loans on units covered by the new code can have monthly payments up to 31 percent of monthly income and total debt payments up to 43 percent of income (regular FHA qualifying ratios are 29 and 41 percent, respectively). The idea is that the lower costs of utilities allows the homeowner to afford higher loan payments. Of course, any unit financed must comply with the HUD safety code, and there are some site requirements concerning where the unit is to be located. The FHA forbids Title I lenders to charge discount points or to require prepayment penalties on the loans.

For those who are eligible, the Veterans' Administration has a loan guarantee program that covers purchase of manufactured homes.

Incidentally, even if a home is purchased with a personal loan, the interest paid is a valid itemized deduction for federal income tax purposes. Any loan used to purchase a first or second home is eligible for mortgage interest deductions. The housing unit merely needs to have sleeping, cooking and toilet facilities to qualify as a home.

In summary, personal property or chattel financing entails a higher interest rate and shorter term but is easier and less expensive to arrange; and the homebuyer does not need to purchase a homesite, thereby reducing front-end costs. Mortgage financing offers lower interest costs but requires the housing unit to qualify as a fixture to real

property. In some parts of the country, developers are offering land lease communities where a manufactured homeowner can obtain a site with a long-term lease. In this way, the homebuyer may be able to obtain mortgage financing without buying a site.

With a long life expectancy and an appearance similar to traditional houses, manufactured units should hold value as well as comparable site-built units.



Definitions

Site-built home. A housing unit constructed entirely or predominately on the site. Structural components, such as wooden I-beams and roof trusses may be constructed in a factory and used on the site.

Manufactured home. A housing unit constructed entirely in a factory and complying with the Federal Manufactured Home Construction and Safety Standards Code. The so-called "HUD code" sets standards for strength, transportability, fire resistance, energy efficiency and quality. Housing units are produced in single or double sections and are transported to the site and installed.

Mobile home. The term applied to manufactured housing units built before the HUD code went into effect in June 1976.

Modular home. A housing unit constructed in a factory and customized to conform to state regulations and local building codes in effect where the unit will be located. Modular units may be single or double sections.

Panelized home. A housing unit composed of pre-fabricated panels built in a factory. The panels contain whole walls including interior wiring and exterior siding. Construction is governed by local codes.

Pre-cut home. A housing unit that is constructed on-site from materials cut-to-fit and finished in a factory.

Source: Manufactured Housing Institute

Since the first federal housing act in 1949, government policy has encouraged home ownership. This public commitment reflects the desire of most citizens to own a home. Yet, the traditional home is beyond the financial capability of many, even with today's low interest rates. The alternative of rented housing is becoming less affordable as well. Faced with this dilemma, expect more families to turn to manufactured housing. Fortunately, while retaining their relatively low cost, manufactured units have improved markedly in quality, safety and appearance. They still are not welcome everywhere, but as a viable source of affordable housing, there will be pressure to make accommodations for

quality subdivisions. Already a significant presence in Texas, the manufactured home has the potential to become a large part of the future housing stock. (Considering buying a manufactured home? Read "Consumers Union's Tips on Mobile Homes." This 20-page booklet sells for \$2 and is available from: Consumers Union, Box EMD, 101 Truman Ave., Yonkers, New York 10703.)

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