



The Next Generation Mainstreaming Manufactured Housing

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A new housing product is making its debut in Texas, and it's designed to appeal to buyers looking for new construction in the starter-home price range. The new offering is for a specially designed factory-built home eligible for 30-year mortgage financing through programs offered by both Fannie Mae and Freddie Mac (government-sponsored entities, or GSEs). Fannie Mae has named the mortgage initiative for this class of homes "MH Advantage" while Freddie Mac has chosen to market their program under the name "CHOICEHome."

Similar to current manufactured housing (MH), this new generation of factory-built homes—known in the industry as "off-site" construction—will be built under the Department of Housing and Urban Development's "HUD-code" standards. The code was first enacted in 1976 but has been periodically updated. MH built before June 15, 1976, even with modifications or upgrades, does not meet HUD standards and cannot be accepted as compliant with the HUD Code.

The Takeaway

Factory-built homes that meet certain guidelines now qualify for 30-year Fannie Mae and Freddie Mac financing, providing an affordable option to first-time homebuyers looking for new homes. The challenge for builders is overcoming the general public perception of what constitutes a traditional single-family home.

The homes will include a number of upgrades designed to align them more with site-built homes. Both GSEs have established their own minimum specifications for the upgrades to qualify for 30-year financing eligibility, but they are similar.

Some of the major specifications involve higher-pitched roofs, drywall throughout, higher-quality cabinetry, and increased energy efficiency. The structures must be attached to permanent foundations and financed with land as real property.

New Appraisal Standards

The GSEs have agreed that appraisers should select the best available sales as comparables in appraisal reports. If sales of new offsite-built product are unavailable, this can include sales of site-built, modular, or manufactured homes. According to the *Wall Street Journal*, the first sale of this class of homes in America occurred in June 2019 in Knoxville, Tenn.

The *Journal* reported the homebuyer received 4.25 percent conventional financing, paying a purchase price of \$195,900 including the lot. Home size was 1,651 square feet, and site-built comparables were reportedly used in the appraisal.

The home is on a street containing a mix of MH, modular, and site-built homes just outside the Knoxville city limits. All the homes were either manufactured or site-built by Clayton Homes, the largest builder of MH and factory-built housing in America. The MH product is virtually indistinguishable from site-built homes in the neighborhood.

Three model homes were on display at the location, showcasing what can be done with different floor plans and lot configurations as well as interior and exterior finishes. Because the product is manufactured in two sections married together, similar to multisection MH, they can be positioned to take advantage of more affordable narrow-frontage lots. The width of both sections together is about 35 feet.

Texas is behind Tennessee in the manufacturing of the new MH product. However, several of the homes should be on the ground in Texas by the end of 2019. Any MH builder of HUD Code homes can become eligible to produce the product, and many have already done so.

At this point, none of the homes have been available long enough to gauge their level of appreciation. However, the GSEs should be able to track both the loan and appreciation performance of these homes over time.

Each home will carry a serial number and a sticker denoting whether it is either MH Advantage-eligible or CHOICEHome-eligible. The sticker will signify that the homes are eligible for legacy financing under the same program on resale as long as no disqualifying alterations have been made. The maximum loan-to-value available to borrowers under both programs is 97 percent, a rate similar to site-built homes.

Appraising the offsite-built housing will be a new experience for many residential appraisers. Freddie Mac

and the Appraisal Institute have teamed up to provide a 7½-hour classroom appraisal course focusing on the CHOICEHome initiative.

Meanwhile, Fannie Mae is working with an online course provider to develop a continuing education class for the appraisal of MH Advantage-eligible homes. MH Advantage e-training is currently available on Fannie Mae's website.

Affordable Housing Crunch

For decades, Texas has benefited from abundant, affordably priced single-family housing. However, after the Great Recession home price increases began to significantly outpace increases in incomes. The result has been a mismatch between what potential homeowners can afford and what is available for sale in the state's starter-home segment.

The median single-family home price for newly constructed homes sold in Texas through a Multiple Listing Service (MLS) increased almost 47 percent from 2011 to 2019, exceeding \$284,000. New homes made up 16 percent of all MLS sales in mid-2019, according to Real Estate Center data.

When both new- and existing-home sales through the MLS were combined, the price increase exceeded 61 percent. Meanwhile, the Bureau of Economic Analysis reported that Texas' per capita personal income had increased by only 23 percent during the same period.

Lower income growth in relation to home price growth has resulted in a much tighter supply of starter homes in Texas. The months of inventory for new and existing single-family homes sold through the MLS stood at more than eight months in mid-2011 for both the overall market and the \$150,000–\$250,000 price range. Supply and demand are considered to be in balance at approximately six months of inventory.

By mid-2019, months' inventory in the \$150,000–\$250,000 price range had dropped to less than three months statewide (an even tighter 2.2 months for homes selling within the smaller \$150,000–\$200,000 price bracket). Overall, months' inventory had dropped to less than four months.

Offsite-Built Alternative Created

In 2018, acting under their respective Duty to Serve plans, the GSEs enlisted help from industry participants to develop a set of standards that MH manufacturers and installers would have to certify were met. The

Manufactured Housing Institute (MHI) concurrently conducted research to find out what features could be added to factory-built housing to increase homebuyer interest. MHI is a national trade organization based in Arlington, Va., representing all segments of the factory-built housing industry.

MHI asked focus groups whether they would consider buying a multisection offsite-built house as their next home. As they changed photos of the homes to ones with higher-pitched roofs, lower elevations, attached garages, and front porches, acceptance increased from 14 percent to 46 percent.

Based on conversations with the GSEs and MH manufacturers, the target price for the new product will be \$175,000–\$250,000, including land. This price point is meant to directly target the underserved first-time homebuyer market.

The MHI research also identified a broader demographic than expected.

“The focus groups showed that baby boomers looking for more affordable housing as well as millennials should like the new factory-built product,” said Dick Jennison, MHI president and CEO.

Resistance to Factory-Built Housing

Any new housing built to the HUD code will have its critics. A 2009 study published in the *Journal of the American Planning Association* found that 30 percent of surveyed city planners considered local citizen opposition a significant barrier to HUD-code factory-built housing.

A 2011 HUD study detailed numerous barriers to acceptance of HUD-code homes in cities. They included regulatory hurdles such as fire codes and zoning codes. They also included subdivision regulations and architectural design standards.

“Manufactured housing is judged and policy is made based off our worst examples, rarely our best,” said DJ Pendleton, executive director of the Texas Manufactured Housing Association (TMHA).

Fannie Mae conducted foundational research in 2019 and confirmed that homebuyers typically do not initially consider MH in their home search. Site-built homes are still seen as the “gold standard,” and MH is believed to be a poor financial investment. There is also little awareness that MH can be purchased with a mortgage.

The poor perception of MH leads to weak demand even if MH is a potential solution to the lack of affordable housing stock. Fannie Mae hopes to address the stigma through a regional consumer education campaign that launched in June and runs through November 2019.

HUD Code versus City Codes

The HUD code is “performance-based,” requiring that the whole home be tested to a specific performance standard. In Texas, cities generally regulate site-built housing construction based on a “prescriptive” code such as the International Residential Code (IRC). Standards and specifications for each component of the construction are described in detail in the IRC.

“City councils are more familiar with prescriptive codes, which often leads to the knee-jerk reaction that the HUD

For More Information

A Comparison of MH Advantage and CHOICEHome Requirements and Benefits

<https://www.manufacturedhomes.com/blog/mh-advantage-choicehome-requirements-benefits/>

Fannie Mae MH Advantage

<https://www.fanniemae.com/manufacturedhomes>

Freddie Mac CHOICEHome

<http://www.freddiemac.com/singlefamily/duty-to-serve/choicehome.html>

MH Advantage participating manufacturers

<https://www.fanniemae.com/content/list/manufacturertlist>

How to Find Your Home’s Wind Zone

<https://www.claytonhomes.com/studio/how-to-find-your-mobile-home-wind-zone/>

code is substandard,” said Pendleton. “The HUD code is federally pre-emptive over state and local law but only to the extent of new-home construction and methods of installation. Our industry has constant struggles when it comes to local zoning.”

Pendleton believes some greater step by the federal government to protect the placement of manufactured homes inside cities would work.

“Any effort by the government to reclassify the new product to preserve zoning parity with other single-family homes would be a step in the right direction,” said Pendleton. “However, the government has generally stayed out of local zoning issues with the exception of discrimination and redlining abuses.”

People may not be aware that MH comes with a “statutory warranty” under Texas law that provides a one-year warranty on construction and a two-year warranty on the installation. “The warranties are backed by a bond and a recovery fund with the Texas Department of Housing and Community Affairs,” said Pendleton.

If they choose to, builders can provide purchasers of new site-built homes with a private warranty. However, nothing in state or city law mandates a builder must warranty a site-built Texas home.

Rigorous Inspections

All MH is subject to a stringent inspection process. Manufacturers will contract directly with, and pay for, either a state or private third-party inspection agency.

“Federal law mandates a third-party inspection to make sure manufacturers follow an approved design package that meets the HUD code,” said Jimmy Griffith, sales manager at Champion Home Builders Inc. “Inspectors must be in the facility checking the plant’s internal systems at least once during the construction of the house as it goes through the factory. They also review data to make sure plumbing and electrical tests are conducted properly.”

HUD periodically audits the third-party inspections as well. Texas has no mandatory inspection requirement for site-built houses constructed outside incorporated areas.

The GSEs have specified that homes be constructed on permanent foundations with masonry perimeter walls. The Fannie Mae MH Advantage program also requires an engineering certification for the foundation.

Regarding Wind Resistance

A major concern with all MH is how well they fare in high winds. The HUD code mandates that all MH must be designed and constructed to conform to one of three U.S. wind load zones. Each home will be manufactured to the wind-zone specifications where it will be installed.

Texas is in two of the three zones. The highest wind zone, Zone 3, is found only in parts of Louisiana and Florida.

According to the MHI, the most recent updates to the wind zones were issued in 2007. A 2014 Insurance Institute for Business & Home Safety wind test found improperly installed attached structures, such as carports and awnings, are what cause about 80 percent of the damage to MH, not structural problems with the home itself.

Sale of Next-Gen Homes

Although the new product will be sold as real property, manufacturers will not be allowed to sell a home in Texas from the homebuilding facility to anyone who is not a retailer.

“A traditional developer could obtain a retailer’s license by going to Austin, taking a three-day course, passing an exam, and paying a fee,” said Pendleton. “At that point the developer could purchase homes directly, install them in a new development that allows HUD-code homes, and allow a Texas real estate licensee to sell the homes just like any other site-built product.” Any resale of the homes can be brokered by a Texas real estate licensee.

Potential homebuyers and appraisers will expect a finished “turnkey” property, so the GSEs strongly recommend retailers provide installation services, landscaping, and all other finish work such as driveways, sidewalks, and garages.

The Road Ahead

In Texas, these new homes will initially be located outside city limits. The current barriers to the placement of HUD-code homes inside most Texas cities are formidable. However, if site-built homes inside a city are no longer profitable, or even available, in the \$175,000–\$250,000 price range, this new product could provide an alternative to fill that niche.

The challenge will be getting city officials and skeptical citizens to accept a HUD-code home with site-built

features and amenities. The “image” of what constitutes a traditional single-family home has been formed in people’s minds over decades, and that image has generally not included a factory-built home.

With the backing of the GSEs, this new housing alternative will increasingly gain acceptance with lenders and appraisers. Hopefully, the parties that have historically

resisted MH in their neighborhoods and cities will at least take the time to inspect this latest offsite-built alternative with an open mind. 🍀

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