

Keys to Successful Manufactured Housing Communities

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June 4, 2015

Publication 2101



No single “magic bullet” will solve the growing affordable housing development problem in Texas cities. When considering all the possible alternatives, small traditional stick-built homes or subsidized low-income apartments usually top the list. Rarely are manufactured housing (MH) communities thought of as a viable alternative.

Sustainable, attractive MH communities already exist in the state today. However, city officials and residents remain skeptical about the ability of MH developments to blend in and thrive in either urban or suburban environments.

As a result, the state’s nicest MH communities have evolved outside city limits. These communities are largely restricted to residents age 55 and older. Still, they may offer a path to one more affordable housing alternative for cities, one that combines economically feasible MH development with greater acceptance of MH by wary local residents.

Nothing New Under the Sun

Quality MH communities are not a new concept. Upscale MH development activity was quite strong in the 1960s and 1970s, mostly in Sunbelt states such as California, Arizona and Florida. Many offered retirees housing in high-cost areas where traditional single-family homes otherwise would have been unaffordable.

The Takeaway

In Texas, manufactured homes have not been included in the discussion of affordable housing development. However, they can be when developments are well thought out and restrictions are reasonable. Good management and restriction enforcement can result in win-win situations for residents and the surrounding community.

Although spiraling land costs have curtailed development of new MH communities in California, manufactured homes on rented land in Malibu's Paradise Cove Mobile Home Park have sold for more than \$3 million. Just "the box" can be quite valuable in the right location.

In Texas, Winter Texans have been coming to MH communities in the Rio Grande Valley for decades. However, they are considered more part-time visitors than full-time local residents.

The focus of this article is on specific MH communities located in the Texas Hill Country outside Kerrville. The intent is to showcase what can be accomplished with MH developments and discuss what has made them successful as a more affordable permanent housing alternative.

Hill Country Communities

Three MH communities in the Kerrville area offer insights into this issue. They are Windmill Ridge, The Wilderness and Scenic Valley. Owners of the three developments retain ownership of the land, charging residents a monthly ground lease somewhere between \$200 and \$400 per month. The MH unit is owned by the resident.

Some combination of basic services are typically included in the ground lease payment, including such things as water, sewer, garbage pickup or basic cable TV. All three properties are 99 percent occupied.

Developed in 1999, Windmill Ridge is the newest community of the three. The 125-lot development is open to adult residents only. About 90 percent of the homes are multisection (double- or triple-section) units.

The Wilderness is an age-restricted (55 and older) property developed in 1969 with a total of 100 MH sites. Multi-section units make up about 40 percent of the community.

Finally, Scenic Valley was developed in 1993. A total of 92 age-restricted (55 and older) sites are located in the community, with about 50 percent of the MH units being multisection homes.

None of the three communities provide short-term lease spaces for recreational vehicle (RV) travelers, minimizing neighborhood traffic and transient activity. However, many of the permanent residents own and store personal RVs in designated areas within the communities.

Keys to Successful Development

The three MH development owners tend to agree on a number of factors that have led to the success of these communities. "The objective is to make a set of rules for a community that work but aren't oppressive," says Sam Spears, owner of Windmill Ridge. "It comes down to good restrictions, good management and offering the residents pride of ownership and a store of value."

"Residents are drawn to our community because they like the lifestyle," says Sue Steele, owner of The Wilderness. "They like the freedom to come up with their own activities, but management must still sign off on their ideas. They like the structure good rules provide."

"Good management and tight enforcement of rules create stability in the community," says John David Grisebaum, owner of Scenic Valley. "The residents know that we are all in this together. The better the community is maintained, the more their homes will retain their value."

The owners agree that amenities and visual aesthetics are important. These communities offer elevation changes, greenspace, paved and landscaped streets and variety in the spacing and placing of homes on a site. Scenic Valley's main focal point is a man-made lake. The Wilderness and Windmill Ridge provide residents with community clubhouses for activities.

Finally, all owners screen their prospective homeowners carefully. "We interview potential buyers and go over the community rules with them ahead of time," says Steele. "No surprises."

"I look for two things in residents," says Griesbaum. "I want creditworthy people who are of good character. That minimizes most of my problems as an owner, including rent collection."

The result has been MH properties that can retain value over time, something that surprises most people. “We just had a ten-year-old property of about 1,800 square feet sell for \$158,000,” says Spears. He notes that the median sales price in Windmill Ridge is about \$90,000. The bulk of sales in Windmill Ridge are double-section units.

Community Restrictions

Although rules and regulations are not identical across these three communities, many commonalities exist. All control the number and size of pets. All limit the ability of residents to sublease their property to others. All rigidly restrict the conditions under which street parking is allowed.

Spears, a MH dealer, originally created Windmill Ridge as an outlet to sell manufactured homes. Through the use of deed restrictions, he has also maintained tight control over the quality of housing installed in the community. MH options are restricted to six brands that only use HardiePlank or Smart Panel exterior siding. Spears also retains ongoing control of allowable exterior colors when units are repainted.

Wind-resistance technology has also improved significantly in both the construction and installation of MH. Spears also installs and warranties all MH placed in Windmill Ridge.

Today, all three communities require rock skirting around the base of the homes. Windmill Ridge imposed this restriction from the beginning, while the other two parks require this upgrade as older homes are replaced with newer ones.

The Wilderness currently requires that a MH unit offered for sale must exceed \$42,500 in value or be removed from the park at the seller’s expense. This price point is determined via a proprietary formula based on MH prices published by NADA, an independent third-party data provider. Homes worth less than this amount are grandfathered in until offered for sale.

Windmill Ridge mandates garages and concrete driveways, with Spears maintaining control over their construction standards. Two-car garages are required for multisection homes, while one-car garages are allowed with single-section units.

Although Windmill Ridge and Scenic Valley allow “for sale” signs in yards, The Wilderness does not. Fliers representing homes for sale are posted on a community bulletin board.

“This is just another way to keep traffic to a minimum in the neighborhood,” says Steele.

Availability of Financing

Financing options are readily available from FHA, VA or USDA when a MH is sold along with the land in a real property transaction. Financing for properties in the three Kerrville parks must be provided through personal property “chattel” loans, since no deed transfer is involved. Only title to the MH unit itself transfers.

“Most closings in these communities occur at title companies,” says Linda Stillwell, MH salesperson and real estate agent at Coldwell Banker D’Ann Harper Realtors. “It provides uniformity to the closing process and the assurance that all taxes and fees have been paid.”

Stillwell obtained a MH salesperson license to permit her to conduct more than three personal property MH transactions per year. Under Texas law, real estate licensees are not subject to any transaction limits when the MH is sold in conjunction with the land as a real property transaction.

“To obtain a MH salespersons license in Texas, applicants must fill out an application, take an eight-hour class, pass an open-book exam and work under a sponsoring broker or retailer,” says DJ Pendleton, executive director of the Texas Manufactured Housing Association (TMHA).

Brokers may “stand alone” with no MH inventory of their own to sell. MH retailers sell their own stock of manufactured homes on lots resembling automobile dealerships.

Bonding is also a requirement. MH brokers are required to carry a \$50k bond. MH salespersons are exempt because they are working under a bonded broker.

National lenders specializing in chattel loans include Vanderbilt Mortgage and Finance and 21st Mortgage Corporation. Local banks also conduct chattel lending. Security State Bank & Trust (SSBT), a Fredericksburg-based community bank, has been an active lender in the three Kerrville communities.

A common myth is that lenders will not finance resales of used MH with chattel loans. This is not the case, especially when the MH is located in well-maintained communities.

“We’ve financed a number of the resales in these parks,” says Trish Perez, vice president/loan officer at SSBT in Kerrville. “I’ve actually financed a few units that were gutted and renovated by flippers.”

“I’m happy to see flippers improve the homes and resell them,” says Spears. “It just increases the overall value of the community.”

Appraisal Issues

Good comparable sales data on resales are critical, since no full Uniform Standards of Professional Appraisal Practice (USPAP) appraisal has been required for chattel loans. However, Dodd-Frank legislation has mandated a rule change concerning appraisals of personal property MH loans as of July 18th.

As tighter appraisal regulations are clarified and understood by all parties involved in the MH transaction, the increased standardization of MH values should further improve financing options and availability down the road. For a more in-depth analysis of the MH appraisal issue, see Pendleton’s article titled “The Coming HPML Appraisal Train” at <http://www.texasmha.com/news/featured/the-coming-hpml-appraisal-train>.

Developing Successful MH Communities

Like any other real estate development, the creation of new MH communities has its challenges.

“Building a new development from the ground up requires a substantial cash outlay up front,” says Spears. “Finding the right tract of land is another major hurdle,” he says.

Griesbaum agrees. “Absorption can also be relatively slow in a new manufactured home community. There are a lot of moving parts that make new development riskier than just buying an existing MH park and upgrading it. You need fairly deep pockets.”

Cities could play a critical role in the success of new MH development if they are convinced the reward is sufficient. “I think if cities can view manufactured housing communities as a viable form of older/retiree affordable housing, they should consider not only allowing for it but incentivizing it,” says Pendleton.

“Cities give tax rebates, loan programs, buying assistance programs, rent abatements, the works for things like drought tolerant yards, affordable housing (apartments almost exclusively) and energy efficiency improvements,” Pendleton adds. “Applying specific incentives to foster MH community development could create more demand and help defray initial costs that make a project more profitable sooner. In the long run, it would also relieve the pressure to increase rents or lessen resident restrictions just to fill a vacant space.” 📌

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