



The New. Generation of Manufactured Home Communities

New development techniques are key to
increasing market share

By Craig White and Roger Walker

ENTERING THE NEW MILLENNIUM, manufactured housing community developers are poised to make significant advancements. But those moves will be more difficult unless they can reach a segment of the home buying public that, until now, has not considered a manufactured home in a land-lease community. To reach that segment, the industry needs to develop a "New Generation of Manufactured Home Communities."

The manufactured housing industry now has a market share of approximately one out of four new single-family homes being sold in the United States. Using its current products, consumer financing and distribution networks, the industry should continue to capture that segment of the market. To increase its market share, however, the industry must use new techniques in land development, product development, marketing and consumer finance.

In order to do this, developers must contend with three major challenges:

1. A declining percentage of new manufactured homes are being placed in land-lease manufactured home communities;
2. An increasing resistance by local regulatory authorities to zoning additional ground for new manufactured home community developments; and
3. A consumer financing system that produces interest rates as much as five percent higher than site-built home financing.

These challenges have prevented the industry from putting homes in better loca-

*The Mountain View
Community in Henderson,
Nev., a representative
of the New Generation of
Manufactured Home
Communities.*

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tions and selling them to higher-income homebuyers. They often bring about two common scenarios:

1. A homebuyer sees manufactured homes and likes them, but the deal falls apart when presented with the communities available in which to place the home; or
2. A homebuyer likes both the homes and the communities, but the deal falls apart when the higher interest rates involved in the financing are made known.

Fundamentals of the New Generation

The elements of a New Generation Manufactured Home Community are the site plan, the product, the documents, and consumer financing—all tied together and driven by the market.

Understanding the market provides definition to the four elements.

The Market

To successfully launch a new community, a developer must understand the homebuyer and his or her needs. Knowing the fundamentals of market research is critical so that the developer can properly position the community to compete with the other sources of housing in the area.

The proposed project must be positioned so that the community offers an advantage in down payment as well as in total monthly payment. Once this work is done, the following questions will be answered:

1. What is the pricing point of the homes in the community?
2. What are the interior and exterior

product features that will be critical to success?

3. What should the monthly home site lease payment be?
4. What features will be important in the community?
5. What is the marketing strategy?
6. What will be the fill rate for the community?

These questions must be answered at the beginning of the development phase. Without this information, it is impossible to resolve the other issues of development (i.e. site plan, product design, zoning, and consumer financing).

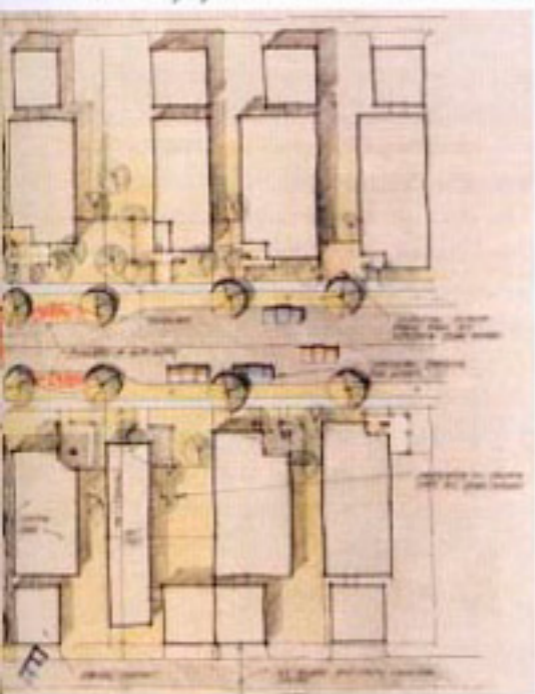
In the past, manufactured home communities have been developed and filled by a consortium of interests—the developer, the manufacturer, the retailer and



the operator. The varied goals of the participants have brought about eclectic communities that do not necessarily showcase the best that the industry has to offer.

The New Generation of Manufactured Home Communities address all of those interests through planning and design at the front end, employing the philosophy that site design, the product, the documents, and consumer financing are all interdependent.

Neotraditional elements like grid plans & alleys can improve the appearance & marketability of communities like Prairie Shores.

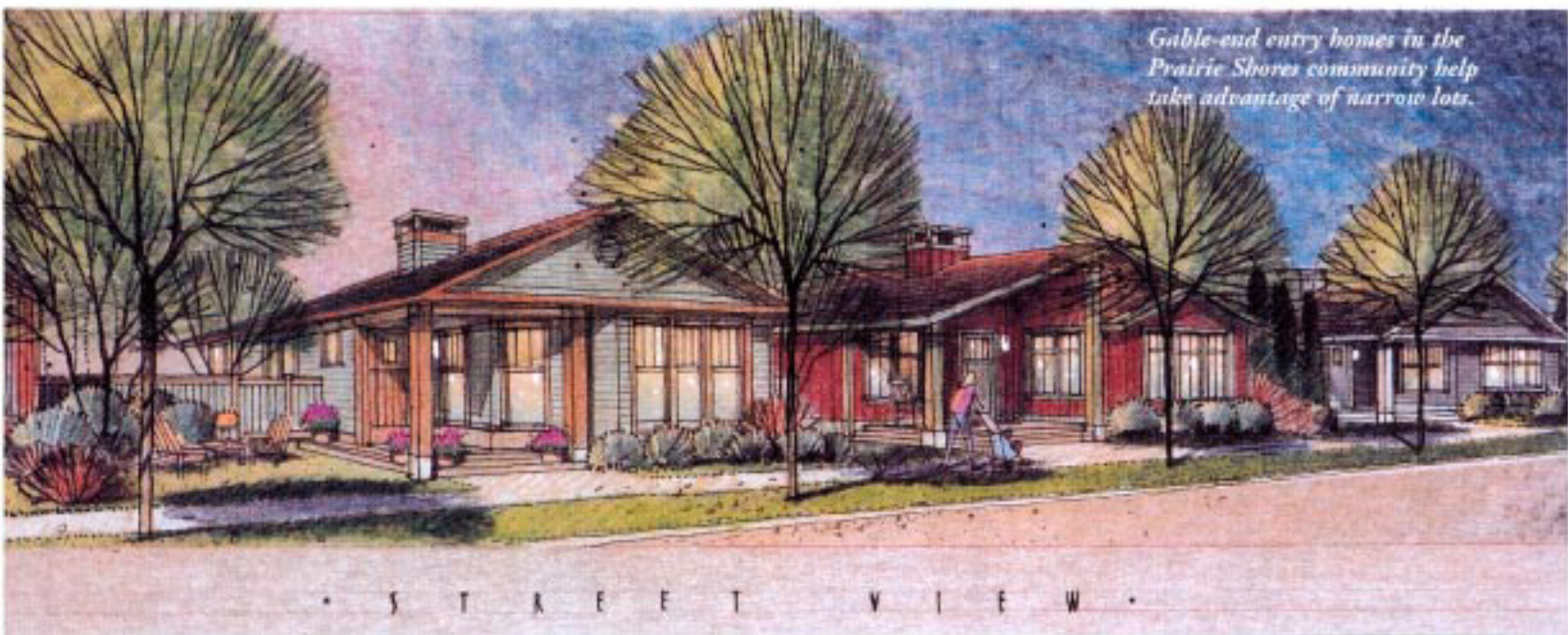


The Site Plan

The new development is a master-planned, single-family housing community using factory-built homes. The site plan must reflect the best in planning, make the most of the natural features of the site, and anticipate the product that will be placed there.

The same design can be achieved for a community that is all multi-section or all single-section homes, but the product must be determined before designing the land.

In the new communities, the overall density is approximately 4.5 to 5.0 home sites per acre. Home sites must typically be large enough to accommodate garages



and to allow for passive outside space for residents.

Our planners work to create home sites that allow placement of the homes with the front door facing the street. Creative land planning techniques use neo-traditional concepts (see *Prairie Shores*), and other planning concepts such as auto-court plans.

The Product

The industry now manufactures very exciting floor plans and elevations. But in the past, little consideration was given to details in the community beyond how many sites would hold single-section homes and how many would hold multi-section homes. The combined use of multi-section and single-section homes takes some creativity with site widths, such as using gable end-entry homes on narrower home sites. The up-front design of features such as steps, decks, parking structures, storage buildings, landscaping and foundation enclosures allows them to look like part of the home, rather than like "add-ons."

For every community, detailed specifications of the interiors and exteriors of the proposed homes should be developed and consolidated into "Design Packs." These packets become the core documents in the request for proposal (RFP) provided to

potential manufacturers.

Considerable attention is given to the foundation treatments for the project. In many cases, homes will be "ground-level set," which lowers the overall elevation of homes and provides more traditional residential elevations. In other cases, the home is set in a more traditional "above-ground" set, but new materials are used below the siding to give a more traditional appearance.

Developers are able to work with manufacturers to create more appealing exteriors by using higher roof pitches, different trim, shutters, special window treatments,

and custom color palettes.

The Community Documents

The documents required to operate this new generation development include:

- A. Covenants;
- B. Architectural controls; and
- C. Home site leases.

A "covenant-controlled community" is a significant benefit to many housing consumers. The presence of community covenants is a major distinction between today's manufactured home communities and traditional subdivisions.

If problems develop in a traditional



Providing concept elevations helps assure that the actual homes will create the desired appearance for the community.



subdivision, recourse is typically police or attorneys. But in land-lease communities, professional property managers traditionally administer covenants.

Specific architectural controls cover not only the exterior appearance of the home, but also its accessory structures such as decks, storage buildings, car ports, fencing, awnings and garages. Without these controls, community residents are free to employ an array of mismatched architectural styles that negatively impact the appearance and desirability of the community.

The most important document in this new generation of land-lease communities is the home site lease.

The best and most successful communities are focused on their residents, to attract the best customers and keep them long-term. Our customers and research have taught us that long-term leases are in the best interests of our customers as well as our company.

Long-term leases satisfy lenders by providing their customers with leases equal to or longer than the terms of the mortgage. Long-term leases satisfy residents by providing specific mechanisms by which the home site lease payments will be increased. Generally these leases provide for several direct pass-throughs such as property taxes, insurance, and common area maintenance increases. In addition, leases can be adjusted yearly based on predetermined formulas or indices.

Though long-term leases are not actual land ownership, they feel more like it to the residents.

Consumer Financing

Without question, the biggest disconnect in land-lease communities has been the difference between site-built single family housing financing and typical financing provided with land-lease communities. Historically, that difference has been about two hundred basis points, but, in

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the current lending environment in the manufactured housing industry, that difference has ballooned to almost five hundred basis points.

Working with major forces in the financing of single-family housing, such as Freddie Mac and Fannie Mae, mortgage rate programs are now entering the land-lease business. This financing, on terms equivalent to those common with site-built homes, will be a breakthrough for this new generation of manufactured home communities.

These new financing programs also create new working relationships with lenders that can help alleviate some of the lender-community tensions of the past. These relationships have been strained in the past by what happens in the event of default by the homeowner. In this new lender-community relationship, in the event a homeowner defaults, community management will:

- assist the lender in securing and protecting the home;
- help make repairs (interior and exterior) to prepare for resale;
- provide some abatement of home site lease payments during the re-marketing of the home; and
- participate in the re-marketing of the home.

We also see a range of strategies that will be implemented in the marketing of these new communities: Developers can establish a marketing center on site that

mirrors the model home centers in traditional site-built subdivisions. They could contract with a single retailer or builder to market exclusively on site. Or, one or more retailers or builders could sell through model centers on site, and allow outside retailers to sell into the community, providing that their homes meet the architectural requirements.

The New Generation of Manufactured Home Communities will provide a better value proposition to the customer. We have seen early results in prototype communities — the homes in those communities have continued to go up in value.