

Eagleville, Tennessee
Photo by Frank Latimer
Modular



Factory-Built Housing Comes of Age

By Don Akchin and Vincent J. Swanson

Rising consumer demand for affordable housing that can be quickly built, particularly in rural areas and post-Katrina Gulf Coast communities, is causing nonprofit developers to evaluate how factory-built structures might complement their affordable housing strategies. Some are pleasantly surprised at what is possible and have even teamed up with for-profit manufacturers.

“As a kid, the familiar game was counting mailboxes during road trips, but upon returning home after graduate school 15 years ago, one day I started counting trailers. It was kind of funny at first, and then I was horrified with what I saw,” the speaker said, regaling her audience with life in rural Kentucky, central Appalachia, where for generations her family worked in tobacco fields. “I was in my own state understanding for the first time how the outside world might perceive me. It conjured stereotypical images that were not comfortable.”

So recalled Stacey Epperson, executive director of Frontier Housing, while delivering a keynote address in Atlanta at the Manufactured Housing and the Future of Affordable Housing symposium convened by NeighborWorks® America in February 2007.

As those negative stereotypes of Appalachian mobile homes fade, today Epperson tells practitioners that her nonprofit is undergoing an “organizational revolution,” partnering as a dealer with the manufactured home industry. Regarding issues of quality, dealers and financing, “the paradigm has shifted,” says Epperson.

David Dangler, director of the NeighborWorks® Rural Initiative, agrees, noting a remarkable shift from just five years ago, when NeighborWorks® convened its last symposium on the subject. “Many of us who’ve been in the game for years noticed a real change in the whole tone of the day,” Dangler said. “Five years ago, nonprofit developers were pushing back pretty heavily. What came across from this symposium is a much greater receptivity to a full range of activities and interactions between nonprofit developers and manufacturers.”

Research also supports the growing popularity of housing built in factories. For example, a 2002 study by

NeighborWorks® America and the Joint Center for Housing Studies at Harvard University, found that “an increasing share of the people whom community development organizations serve are opting to live in housing that was built off-site in a factory. Many community development practitioners are just beginning to come to terms with the implications of this for their work.”

Factory-Built Homes: Manufactured or Modular?

These terms are easily confused but represent two starkly different approaches and distinct industry groups.

Manufactured housing has been regulated by federal code since 1976 and today presents significant improvement in quality and style options. Manufactured homes are delivered either by a flatbed truck, or towed on their own wheels, using the unit’s permanent built-in chassis and axles. Once sited, the



Phillips St
New Orleans, Louisiana
Photo Frank Latimer
Modular

Regina Gibson and her children at their new Frontier Housing home in Morgan County, Kentucky.

Photo credit: CFED/TM HOME (Innovations in Manufactured Homes)



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—Stacey Epperson, Executive Director
of Frontier Housing

wheels are removed but typically the chassis and axles remain.

Manufactured housing can be sold as either real estate or personal property, depending on the titling rules in the state in which the buyer purchases the home. Financing for manufactured homes is often provided by or arranged through the retailer selling the home.

Modular homes are also constructed in a factory setting but are built to the state, local or regional building codes where the home will be located. Once transported to the site, modular homes are placed by crane on a permanent foundation. Financing for modular housing is conventional mortgage financing.

A New Housing Frontier: A Nonprofit's Odd Path to Dealership

Frontier Housing, located in Morehead, Kentucky, is the state's largest nonprofit single-family homebuilder, and Epperson wanted to shop her competition to determine what made factory-built housing attractive to prospective lower-income homeowners. She found convenience and—to her great surprise—a quality product. “We toured the factories,” she said, “and the quality had changed tremendously. What they were doing in the factory was very similar to what we were doing in the field.”

Epperson was also curious to understand why only 10 percent of people completing Frontier's homebuyer education program were purchasing Frontier homes. Where was the other 90 percent going? “We figured out that in one year, 90 percent (75 out of the 83 homebuyer education participants) had bought manufactured homes,” she explained, despite stern warnings about the manufactured housing industry.

Why the warnings? Critics point out that manufactured housing does not always appreciate in market value, hampering homeowners' ability to grow wealth. And financing based on personal property, rather than real property is too costly, particularly with add-on amenities, such as TVs and furniture. But over time, say proponents, the quality of factory-built homes—both manufactured and modulars—has increased significantly, and the benefits of affordability, speed of construction and potential access to affordable financing are yielding opportunities for asset appreciation and wealth building.

Today, Frontier is a dealer for Clayton Homes, the largest producer of manufactured housing in the nation and also a producer of modular homes. By working directly with Clayton Homes, Frontier can provide safe and affordable housing, while offering home choices and financing terms appropriate for the buyer, protecting consumers from unscrupulous lenders. Epperson adds: “We needed to find a very low-cost housing product for families earning between 30 and 50 percent of median income. That's the base we've served for over 30 years. Rising land prices and tighter subsidies make it harder, but

factory-built housing with a base price of \$48,000 (not including land and site improvements) helps keep expenses in line.”

Frontier uses federal and state loans and subsidies to provide affordable mortgages to its homebuyers. Clayton, in turn, has developed new designs—including one called “The Stacey”—appropriate for Frontier’s market. “We still do stick building,” Epperson says. “But we project that half our work next year will be manufactured and modular homes.”

Factory-Built Housing Revs Up Gulf Coast Production

Nowhere are the strengths of the factory built sector more in evidence than in the Gulf rebuilding initiatives following the hurricanes of 2005. After assessing the damage from Hurricane Katrina, Walter Hendrix, president and CEO of DASH for LaGrange, Georgia, concluded that factory-built on a large scale was the only way to provide housing in a timely fashion. “With the existing construction labor force down there, we could not provide the housing needed to replace what was destroyed in the next couple hundred years,” he said. It takes 400 to 500 man-hours to build a modular home under controlled conditions in a factory, he says, compared to 3,000 to 3,500 man-hours for on-site construction. Aside from the greater productivity, the savings in labor alone subtracts about \$30,000 from the cost and helps keep housing affordable, according to Hendrix.

With help from a NeighborWorks® grant, DASH for LaGrange commissioned architects to design up to 10 house plans for modular homes. “Many architects are getting into it and designing good products, much better than what we were accustomed to seeing,” Hendrix explained. “Except for some width and height constraints, you can do anything in modular that you can do with stick-built.”

Several other nonprofits working in the Gulf states cited the acute labor shortage as a factor driving them toward factory-built housing. “It’s a lot quicker to build it in Tennessee and bring it in than to build it in Louisiana,” said Eddie Latimer, executive director of Affordable

Housing Resources of Nashville, Tennessee, which is building a subdivision exclusively of modular homes in Baton Rouge. Underscoring the expeditious nature of factory-built housing, cranes can place four to five homes on sites in a day.

“We’re having a hard time putting in an affordable stick-built house for under \$130,000, because land prices and construction costs have gone through the roof,” Latimer remarked. “In 2000, our homes were in the \$100,000 range. We offer the modular homes for about the same price as the stick-built, but with the modular you get nine-foot ceilings, crown molding, and a really nice kitchen with an island. It doesn’t look like a lower-income house. It’s a much better buy.”

In Pass Christian, Mississippi, NeighborWorks® partner Enterprise Corporation of the Delta/HOPE Community Credit Union is building a neighborhood of 34 modular homes, all of them sitting on cement or wood pilings to reach the required elevation. Phil Eide, senior vice president of housing initiatives, says modular was virtually unknown in Mississippi. “In 2005, there were roughly 30,000 building permits for manufactured homes and 30 for modulars,” he says. “There weren’t any contractors in Mississippi who knew how to do modular.” But the labor shortage, which Eide expects to become even more acute when federal funds are released later this year, made factory-built modular housing the only viable option.



Hidden Cove
Baton Rouge, Louisiana
Photo Frank Latimer
Modular

Improvements in Quality

Recent innovations in design, including multi-stories and attached garages, make factory-built housing an increasingly viable alternative to traditional on-site construction when developing affordable housing strategies.

The construction of factory-built housing, according to Eide, “is building just like you would on site. They’re just doing it in a controlled environment. In fact, they’re doing some things above and beyond what an on-site builder might do.” Drywall is both glued and screwed together, for example, because the house has to withstand additional stresses going down the highway.

Terry Gaar, administrator of Habitat for Humanity’s Modular Housing Project, which has developed communities of modular homes in Baton Rouge, Louisiana, and Dothan, Alabama, also praises the quality she’s seeing. “It’s full half-inch wallboard, real wood, real nails. These homes actually have more material in them than traditionally built homes.”

Factory-built housing has become a tool that the community development field can no longer ignore.



New Orleans, Louisiana
Artist Rendition
Manufactured



New Orleans, Louisiana
Photo Frank Latimer
Manufactured

Addressing Manufactured Homes Issues

The dealer network is as integral to manufactured housing as it is to the automobile business, on which it is modeled. Most new manufactured homes are sold by dealers, who also arrange transportation to the home site, and often the financing. The consumer protections found in the auto industry, however, are not present. For instance, dealers do not have to reveal factory invoice or dealer markup to customers. If more nonprofits follow in Frontier's footsteps, and become dealers, the business model industry-wide could possibly evolve into a more consumer-friendly environment, offering homebuyer education programs and better financing options.

At the same time, creative social entrepreneurs continue to push the envelope on systems thinking. CFED, a national not-for-profit organization, with funding from the Ford Foundation and NeighborWorks® America, has a program called I'M HOME (Innovations in Manufactured Homes), which supports programs across the country that are helping families who choose manufactured homes. I'M HOME and its partners are working on several fronts: increasing the quality of manufactured homes, expanding financing options and changing public policy affecting homeowners.

The policy issues affecting owners of manufactured homes present a challenge for nonprofit developers. Less than two percent of manufactured home communities in the United States are resident-owned, according to a 2006 study conducted by The Carsey Institute at the University of New Hampshire. Most homeowners in these communities face the troubling possibility that someday the land underneath their homes will be sold, a problem that some groups are seeking to solve. The study found that "Residents who own their manufactured home communities have significant economic advantages over their counterparts in investor-owned communities, as evidenced by higher average home sales prices, faster home sales, and access to fixed-rate home financing."

A highlight of the NeighborWorks® symposium in Atlanta was the announcement of ROC USA, a new national organization to help homeowners purchase their communities. ROC, Resident-Owned Communities, grows out of the pioneering work of the New Hampshire Community Loan Fund, which for 22 years has developed a system for acquiring parks and converting them to homeowner

cooperatives. With 82 community conversions to its credit, ROC USA director Paul Bradley is scaling up to take the New Hampshire model to other states. ROC USA is training lenders and nonprofit leaders, aligning financing resources and developing national resource partners.

Wave of the Future?

"Factory-built homes are the wave of the future," said Thayer Long, vice president for industry relations for the Manufactured Housing Institute. "In Japan and European countries, a lot of their homes are already built in the factory. The more you can do in a controlled setting, the more you can bring economies of scale into play with greater efficiency and greater quality. It's just a matter of time before it happens in the U.S. market."

Whether or not Long's forecast proves true, there is little doubt that factory-built housing will be playing a larger part in the strategies of nonprofit housing developers. Driving the trend is consumer demand for affordable homes, the tremendous need for replacement housing in the Gulf states that can be built quickly, and for nonprofit housing developers, financing options that take predatory practices out of play.

"It's a long-term commitment to learning a whole new industry," said Epperson of the decision to team up with the factory-built manufacturers. "They do not speak the same language we speak. If you're going to take it on, you have to be so persistent."

But there are some surprising advantages, Epperson said, explaining that the comfort level for using factory-built housing among community developers has seen great strides. "One is the benefit of knowing what the customers want. The industry does constant research to understand the market," she said. "One unexpected thing for me was finding out how much people really do like the homes." ■