AMPLE CAPITAL DRIVES GROWTH IN MANUFACTURED HOUSING

Overall investor interest in manufactured housing is on the rise, thanks in part to changes in Fannie Mae and Freddie Mac financing for the sector.

By Carl Pankratz, NorthMarq Capital

As we turn the page on another successful Manufactured Housing Institute National Congress and Expo, several themes are emerging.

From the amount of capital in the market to the changes in the government agencies to continued reforms in financing for chattel, or homes, the industry of manufactured housing heads into the second half of 2017 with substantial momentum, thanks in part to a number of new entrants in the market.

A few statistics shared at the conference reveal the interest in the manufactured housing industry as a whole. First, this conference saw the most attendees for a National Congress and Expo since 2007. Second, the first quarter of this year has already seen a 23 percent increase in housing shipments over last year, with year-over-year increases of around 17 percent.

There are likely a few reasons for this increase. But above all else, capital is plentiful, fueled by heightened interest in the industry in the private equity and REIT space, as well as low interest rates.

With so much capital comes more interest. This interest has led to less ownership by traditional "mom-and-pop" entities and more competition, thus lower cap rates. In some regions, parks trading with sub-5 percent cap rates are seeing multiple offers. For parks with more than 150 pads, the competition is even more fierce, as those have traditionally been targets for REIT and private equity interest.

Also fueling this competition is the very attractive debt offered by both Fannie Mae and Freddie Mac. Around three years ago, Freddie made a big push into financing manufactured housing communities via its ability to look at 3-star communities.

With this product, Freddie was able to work with community owners who didn't have a "4 star" or higher rating to qualify for Fannie Mae loans, or those who previously only used CMBS debt for their non-recourse needs.

Likely viewing the success by Freddie in this space and seeing the continued need, Fannie reviewed its standards and dropped requirements to make its loans very competitive from an underwriting standpoint. Changes included removing the need to have 50 percent of the pads be "double-wides," allowing this product into its small balance loan program and enabling more "3 star" parks to be considered. Now, more park owners have two great options with the agencies.

The biggest barrier to entry made by both agencies continues to be a restriction on the amount of park-owned homes. Fannie now allows the proportion of park-owned homes on acquisitions to be as high as 35 percent. However, the standard for both agencies continues to be around 25 percent.

This limitation on park-owned homes hinders the ability of some communities to take advantage of this financing. Thus, there is still a strong need for CMBS, bank and other capital sources.

Capital sources are plentiful in financing communities, but lack of financing of options for chattel, aka homes, continues to be a drag on the industry. For families looking to finance an individual manufactured home, lending rates continue to climb, leaving fewer options. However, positive trends seem to be emerging to relieve this burden, with both Fannie and Freddie having released their latest duty to serve plans.

At the conference, representatives from both agencies recognized the need for a secondary market to trade in chattel and are looking for ways to best accomplish this feat. Although this is not being done as fast as some would hope, the recognition and movement to establish lending parameters is a good start.

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The industry looks strong as we enter the second half of 2017 and beyond. ■