

# Manufactured Housing: A Bright Spot for the Southeast

**The manufactured housing industry in the Southeast weathered the recession fairly well. Mobile home producers, in particular, have parlayed higher-quality construction and a refurbished image into strong growth in the region.**



For the United States, privately owned housing starts and new one-family houses sold fell 47 and 50 percent, respectively, from 1977 to 1982. On the other hand, mobile home shipments in the United States and the Southeast showed considerable strength over this period. Mobile home shipments have shown greater relative strength during the recent recession than have new one-family houses sold (see Chart 1).

During the past two years, some companies in manufactured housing have performed extremely well compared to the "recession-sensitive" auto industry (see Table 1). In fact, some of the producers have substantially increased sales in absolute dollar terms during the last two years. This article examines why the manufactured housing industry emerged as a bright spot for the Southeast during the recent recession.

The size of the manufactured housing industry is impressive; partially or completely manufactured housing (mobile homes, conventional with components, modular/sectional, and pre-cut) accounted for 90 percent of all residential housing units produced in the United States during 1981. Mobile homes accounted for 26 percent of all residential units produced.<sup>1</sup> What is even more significant for industrial growth in the Southeast is that this region in recent years has consistently been increasing its share of overall manufactured housing produced in the United States. Manufactured housing is a growing industry in the region, but it is propelled almost entirely by

<sup>1</sup>The '82 Red Book of Housing Manufacturers, South Edition, CMR Associates, Inc., 1982, Crofton, Maryland.

**Table 1. Manufactured Housing Sales and Net Income Compared with Recession-Sensitive Industries (Millions of Dollars)**

	Sales			Net Income				
	1980	1981	1982	% Change 1980-1982	1980	1981	1982	% Change 1980-1982
Manufactured Housing *	1,638.2	1,861.7	1,991.8	21.6	15.9	22.1	25.0	57.2
Automotive	132,445.3	142,254.3	128,147.3	-3.2	-4,020.3	-1,210.4	-1,070.3	N.M.
Chemicals	95,202.3	108,015.6	105,226.9	10.5	5,440.4	5,890.2	3,742.8	-31.2
Paper and Forest Products	49,967.4	52,640.7	48,482.6	-3.0	2,847.2	2,771.3	1,088.9	-61.8
Steel	45,247.7	49,711.5	44,954.3	-0.6	1,399.1	1,801.6	-3,102.3	N.M.
Textiles and Apparel	28,500.9	31,592.3	28,999.2	1.7	1,025.9	1,073.8	865.3	-15.7
Tire and Rubber	22,975.1	23,231.8	21,462.7	-6.5	247.1	650.5	375.1	51.8

Sources: All data except for manufacturing housing were obtained from **Business Week's** "Corporate Scoreboard" from the March 16, 1981, March 15, 1982, and March 14, 1983, issues. Data for manufactured housing were obtained for selected public firms from Standard and Poor's Compustat Services, Inc.

N.M. Not Meaningful

\*Sales and net income figures for manufactured housing in 1982 are estimated from data through the third quarter of 1982.

mobile home production. This industry not only provides an increasingly popular alternative to custom-built—or "stick-built"<sup>2</sup>—housing but also provides support to the economic base of the Southeast.

### The Rise of Manufactured Housing in the U. S. and the Southeast

The American public is becoming more receptive to manufactured housing for several reasons, one of which is quality improvement. Construction in a factory environment is more conducive to quality control than on-site construction. Landmark improvement in the quality and safety of mobile homes in particular began in 1976 when Congress passed the Manufactured Home Construction and Safety Standards Act. Since it took effect, only mobile homes that have been inspected by the U.S. Department of Housing and Urban Development can be sold for residential use.

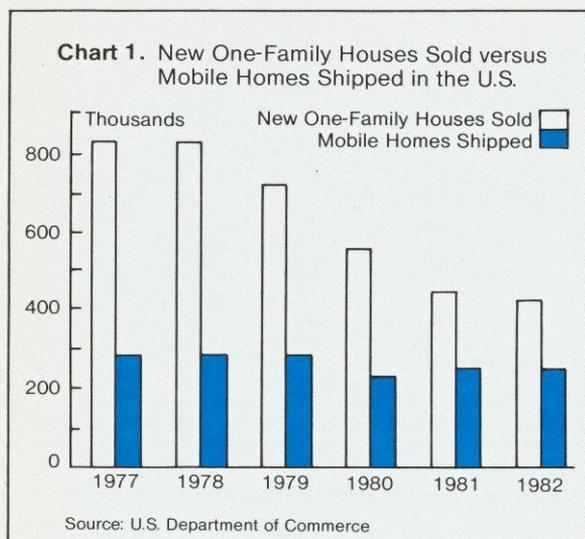
Improvement in style has raised the visual quality of manufactured housing. All varieties of manufactured housing—pre-cut, modular, mobile homes, and others—offer a greater choice of options to the home buyer than in the past. Exteriors look more like stick-built exteriors.

### What is Manufactured Housing?

Manufactured housing is not what it used to be. The old-fashioned metal box known as a mobile home is no longer the typical manufactured house. Today, manufactured housing comes in many varieties: panelized, pre-cut, and modular/sectional, as well as mobile homes. Furthermore, mobile homes have changed dramatically in recent years. The standard, low-cost, box-like mobile home is still available, but the industry now makes many styles of both single-wide and multiwide mobile homes. Modern versions of the mobile home look more like stick-built homes—the siding is more appealing, windows are dressed better, and the roofing appears more like that of the conventional home.

Newer varieties of manufactured housing differ considerably in the "degree" to which the individual unit is "manufactured"—some are only partially built under factory conditions while others are almost entirely manufactured. The complete range of manufactured housing includes custom-built housing that contains some manufactured components, pre-cut housing, panelized homes, modular housing, and mobile homes. Of course, stick-built homes can be entirely built on site. However, many custom-built homes do contain some manufactured components such as trusses. Pre-cut homes are built from parts cut to size under factory controlled conditions and then are assembled on the home site. Likewise, panelized homes are assembled on site but not from pre-cut parts. Instead, entire walls, floors, and roofs are built at the factory and shipped as "panels" to the construction site. Modular homes are assembled on site from whole rooms that are delivered to the site from the factory. Finally, mobile homes are almost entirely assembled in the factory. Often, even furniture is included in the finished mobile home.

<sup>2</sup>Housing that is built piece by piece on site is referred to as "stick-built" because the frame of the house is built with one "stick" of lumber at a time.



Inside, the customer can choose between many options such as kitchen cabinets, bath fixtures, and the color of the carpet. With the purchase of a mobile home, there is often a choice in the style of furniture.

Another change that has boosted the popularity of mobile homes is the increased availability of financing. Before 1969, the financing of mobile homes was not easy. While fabricated housing (such as pre-cut and modular) could be financed on the same basis as conventionally built homes, mobile homes had to be financed almost the same as automobiles. More than a decade of concerted action by mobile home manufacturers and savings and loan officials finally has brought mobile home financing close to par with financing for site-built homes. Only in 1969 did the Federal Home Loan Bank Board allow thrifts to make mortgage loans on mobile homes. Even then, mortgage maturities could be no more than 12 years for new mobile homes and no more than 8 years for used mobile homes. The amount of available funds was severely restricted—a thrift association was not allowed to invest more than 5 percent of its total assets into these mortgages.

The Department of Housing and Urban Development began insuring mobile home mortgages under specific FHA plans in 1970. The Veterans Administration began guaranteeing loans for mobile home mortgages later in 1970. Only in 1973 did the FHLBB allow thrifts to make FHA/VA loans for mobile homes. Other restrictions were eased

throughout the 1970s and early 1980s. In particular, the dollar limit on financing for an individual home has continually risen.

In early 1983, a mobile home—new or used—could be financed for a term of up to 30 years. The maximum loan amount is equal to 90 percent of the buyer's total costs (excluding a few costs such as credit life insurance). Furthermore, there are no limits on the percentage of assets that savings and loan associations can put into mobile home mortgages. Still, many restrictions do apply to mortgage lending on these homes by thrifts. Among others, the home must be owner occupied and the home must have "an intended permanency." To meet intended permanency requirements, the home must have the wheels removed, be permanently attached to a foundation, be taxed as realty, meet zoning regulations, and must meet the same real estate regulations of thrifts that apply for one-to-four family conventional units.

Today's mobile homes do qualify for conventional loans in addition to FHA/VA home financing. Additional funds were made available for loans when, in 1981, the Federal National Mortgage Association ("Fannie Mae") announced a change in policy agreeing to purchase these mortgages in the secondary market.

Finally, today's economic environment has played no small role in increasing demand for manufactured housing. Until the current recession slowed inflation, housing costs had been rising rapidly—more so than changes in the overall consumer price index. In the third quarter of 1982, the average sales price of a new single-family house had risen to \$83,900. In contrast, the average sales price of a new mobile home was \$19,600.<sup>3</sup> A typical monthly payment for this average conventional home is estimated to have been \$1,076 versus \$300 for the mobile home.<sup>4</sup>

The relative affordability of mobile homes has increased their popularity. Affordability and the availability of financing have played key roles in helping mobile home sales to fare better during

<sup>3</sup>Source: U.S. Department of Commerce. Unlike new stick-built single-family houses, the sales price of mobile homes does not include the cost of land. On the average, the price of a new single-family house is estimated to consist of 18 to 20 percent land cost and the rest for the actual construction costs.

<sup>4</sup>For both the conventional home and the mobile home, the monthly payment estimates are based on a typical term of 30 years, a down payment of 5 percent, and a mortgage rate of 16 percent (which was the "going rate" during the third quarter of 1982). The sales price of the mobile home is adjusted upward by 20 percent to take into account land costs. Neither figure includes insurance or property tax expenses.

**Table 2.** 1982 Estimated Production and Shipments of Manufactured Housing in the Southeast

State	Factory-Built Housing Units*	Percent of U.S.	Mobile Home Units	Percent of U.S.	Total Manufactured Units	Percent of U.S.
Alabama	1,310	1.1	18,757	7.9	20,067	5.6
Florida	2,390	1.2	18,950	8.0	21,340	5.9
Georgia	4,430	3.7	34,010	14.2	38,440	10.7
Louisiana	2,720	2.3	3,269	1.4	5,989	1.7
Mississippi	670	0.6	6,031	2.5	6,701	1.9
Tennessee	660	0.6	7,584	3.2	8,244	2.3
Southeast	12,180	10.1	88,601	37.1	100,781	28.0
U.S. Total	121,000	100.0	239,000	100.0	360,000	100.0

\*Factory-built housing units include panelized, pre-cut, and modular/sectional housing units.

Source: **The '83 Red Book of Housing Manufacturers**, South Edition, CMR Associates, Inc., 1983, Crofton, Maryland. The six states in the FRB-Atlanta District represent part of **Red Book's** South Region.

**Table 3.** 1978 Estimated Production and Shipments of Manufactured Housing in the Southeast

State	Factory-Built Housing Units*	Percent of U.S.	Mobile Home Units	Percent of U.S.	Total Manufactured Units	Percent of U.S.
Alabama	5,160	1.6	17,390	6.0	22,550	3.7
Florida	10,000	3.1	17,360	6.0	27,360	4.5
Georgia	7,880	2.5	24,270	8.4	32,150	5.3
Louisiana	5,440	1.7	3,830	1.3	9,270	1.5
Mississippi	1,900	0.6	5,070	1.7	6,970	1.1
Tennessee	4,100	1.3	6,760	2.3	10,860	1.8
Southeast	34,480	10.8	74,680	25.8	109,160	17.9
U.S. Total	320,420	100.0	290,000	100.0	610,420	100.0

\*Factory-built housing units include panelized, pre-cut, and modular/sectional housing units.

Source: **The '79 Red Book of Housing Manufacturers**, South Edition CMR Associates, Inc., 1979, Crofton, Maryland. The six states in the FRB-Atlanta District represent part of **Red Book's** South Region.

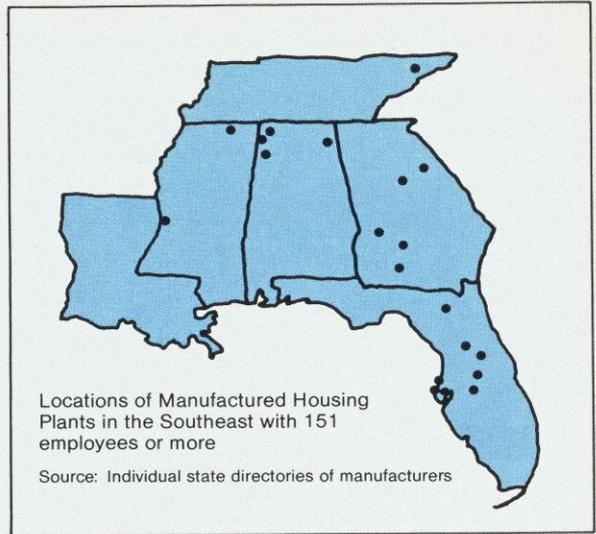
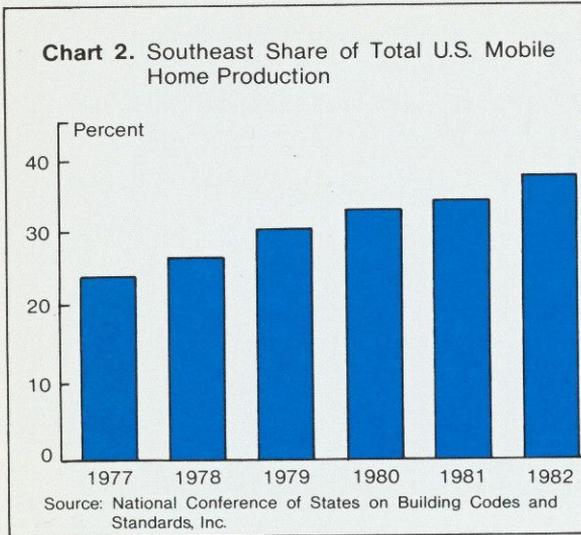
the recession than sales of new one-family houses (Chart 1). Other types of manufactured housing also offer savings to consumers. Depending on the variety of manufactured housing chosen by the consumer, savings can run anywhere from 5 to 25 percent of the cost of a conventionally built house.

### Why Manufactured Housing Firms Are Moving Into the Southeast

The Southeast's share of total manufactured housing output is on the rise (Tables 2 and 3). Firms

are moving into the region from elsewhere in the country; many existing southeastern plants are expanding capacity, and others have plans for expansion. In particular, the Southeast has rapidly been improving its share of U.S. mobile home production (see Chart 2). On the other hand, the Southeast's share of "factory built housing units" (not of the mobile home variety) has remained fairly constant over the last few years. But why is the Southeast making such inroads into manufactured housing markets overall?

Of all factors affecting long-term growth, the region's demographics has to be the most



important. An increasing population is attracting new plants for factory-built housing and is encouraging expansion at existing plants. This trend is not just a southeastern phenomenon—it is occurring throughout the “Sunbelt.” During the 1970s the South<sup>5</sup> attracted more than 350,000 people each year compared to only 130,000 annually in the late 1960s.<sup>6</sup> Overall, the South’s population increased by 22 percent from 1970 to 1980.<sup>7</sup> Though the population increase slowed during the recession, the long-term trend is for the population growth rate to remain relatively strong compared to the rest of the nation. What this trend spells out is an increase in the demand for housing. Throughout the Sunbelt, home builders are being attracted on a long-term basis in order to build this housing. Just like any other home builders, companies that build manufactured housing are moving to where the markets are.

In addition to population growth, some economic factors do affect the southward movement of industrial housing plants. Among these

are “economies of agglomeration,” labor costs, and weather factors. In plain English, economies of agglomeration means that production of a good is cheaper when all of the firms producing the inputs for the final product are located near the plant using these inputs. Their proximity helps production flow more smoothly and at a lower cost. For the producers of manufactured housing, production is cheaper when plants are

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**“What this trend spells out is an increase in the demand for housing.”**

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located near suppliers. Supplier industries include lumber, plywood, furniture, appliances, and fabricated metal among others.

Many of these supplier industries are locating in the Southeast and the rest of the Sunbelt for reasons independent of the manufactured housing industry, while others are relocating for the specific purpose of supplying firms that produce industrial housing. In the Southeast, furniture, appliance, and plywood are major industries that relocated for general economic reasons, whereas producers of components for industrial housing

<sup>5</sup>For the discussion of demographics, the “South” refers to the South Census Region as defined by the Department of the Census. The region includes Delaware, Maryland, Washington, D.C., Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, and Texas.

<sup>6</sup>William J. Kahley, “Migration: Changing Faces of the South,” *Economic Review*, Federal Reserve Bank of Atlanta, June 1982.

<sup>7</sup>James W. Clay and Alfred W. Stuart, “Uneven Growth: Southern Population Change at the County Level,” *Economic Review*, Federal Reserve Bank of Atlanta, June 1982.

(such as trusses, some fabricated metal, and mobile home furniture) relocated for the specific purpose of serving the manufactured housing industry.

Once supplier firms became more concentrated in the Southeast and the rest of the Sunbelt, producers of manufactured housing found moving to the area to be advantageous. As one producer states, "It's a lot easier to make the product when 95 percent of your suppliers can be found within a 250 to 300 mile radius. You just don't have that kind of situation in places like Montana." The existence of satellite industries plays a major role in plant location.

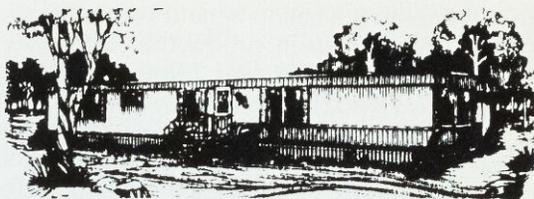
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**"Tradition has much to do with the success of manufactured housing in the southeastern housing markets."**

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The location of raw material such as lumber and plywood does not play a significant role in attracting firms. Lumber comes primarily from the Northwest and from Canada. For lumber, producers prefer the tall hemlock fir and spruce which are not found in the Southeast. On the other hand, the fast-growing pine—which is used in plywood—is grown primarily in the Southeast. However, transportation costs of plywood are relatively low compared to the transportation costs of a finished manufactured house. Firms prefer to locate close to the markets for the final product because of the considerably higher transportation costs of the actual home. But once a decision to locate in the region has been made, firms often do select a site near sources of plywood or timber. Still, the dominant factor in the location decision is the nearness of consumer markets.

The warmer climate in the Southeast has provided incentive for some firms to locate here. Air-powered tools are frequently used in the production of the housing units. Below-freezing temperatures frequently freeze air-driven tools because the moisture in the tools freezes. Exposure to the weather is less of a problem in the Southeast. However, some northern companies



report that cold weather is not that significant a problem when production facilities are built to the proper size and then heated. Still, warmer weather does allow more days for transporting finished homes. This reduces inventory costs for Sunbelt firms.

Finally, traditional acceptance of manufactured housing in the Southeast encourages firms to locate here. The region still has a greater percentage of lower income families than the rest of the nation. These families have been the backbone of the market for manufactured housing—in particular, for the mobile home market. Manufactured housing has long been accepted by lower income families as an alternative to conventionally built homes. Though income levels in the Southeast have risen, the region is still very receptive to manufactured housing as an alternative to custom-built housing. Tradition has much to do with the success of manufactured housing in southeastern housing markets.

Demographics is the key reason for the growth of industrial housing in the Southeast; a growing population means an increasing demand for housing—whether for conventionally built homes or for manufactured homes. Other factors affecting location of firms and plants are lower labor costs, relocation of suppliers, a warmer climate, and a traditional market for the products.

### **Characteristics of Manufactured Housing Producers in the Southeast**

Producers of the entire range of manufactured housing types are located in the Southeast. Mobile home producers far outnumber producers of factory-built houses. In terms of output, southeastern-produced mobile homes in 1981 are estimated to have been 80,440 versus 9,910 factory-built housing units (see Table 2). Georgia leads the Southeast in production of both. In fact, Georgia is the second largest producer of

mobile homes in the nation behind Texas. Georgia also leads the region in production of factory-built housing units with over 3,000 units being built in 1981. Florida—with its heavy in-migration and large retirement community—is second in the region in both mobile home production and in the number of factory-built housing units produced.

The number of employees in mobile home firms varies widely. A typical firm employs 51 to 100 employees (see Chart 3).

In contrast, about 70 percent of the producers of prefabricated wood homes and components have 50 or fewer workers. Approximately 20 percent of the firms have from 51 to 100 workers. Only around 10 percent of these firms have over 100 workers. There is considerably less variety in the firm sizes of these types of manufactured housing producers.

In 1982, the output per worker (in terms of sales revenue) in the mobile home industry generally ranged from \$85,000 to \$130,000. Industry spokespersons indicate that the “rule of thumb” for management is that most firms try to “run a 10 percent labor factor.” Out of total expenses, 10 percent of the cost should be for labor, 70 percent for materials, 10 percent for overhead, and 10 percent (hopefully) for profit.

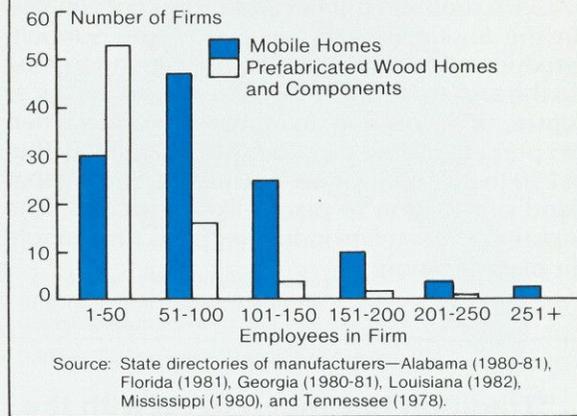
The fabricated housing component of manufactured housing is more labor intensive. The sales revenue per employee ranged from \$60,000 to \$86,000 in 1982. Most of the variation in worker output—in both the mobile home component and the prefabricated housing component—was a result of different approaches by firms in adjusting to reductions in demand. Some reduced the size of the labor force, while others concentrated on reducing hours worked. Variations in firm size did not appear to be related to differences in sales revenue per employee.

### Who Are Some of the Producers in the Region?

We have seen where the firms are distributed in the Southeast and how the firm size varies, but who are some of the individual firms, what were their experiences during the recession and what are their plans for the future?

In many ways, Guerdon Industries (based in Louisville, Kentucky) is typical of the “mobile home” portion of the manufactured housing industry. Perhaps not so typical is the geographic

**Chart 3. Number of Producers in Southeast by Employment**



extent of the company—14 plants are scattered throughout the Southeast and other parts of the United States.<sup>8</sup>

The company only partially “planned” on taking advantage of the Sunbelt’s rapidly growing population—most plants were acquired through merger before 1967 (before most in-migration really began). However, Guerdon did view the Southeast and the rest of the Sunbelt as a traditional market for manufactured housing. Southeastern plant locations were chosen also because of the region’s labor supply being basically non-union yet equally productive.

One characteristic that this company does share with others in its sector of manufactured housing is that Guerdon produces a full line of mobile homes—from the low-cost mobile home to the higher priced, luxury, “not-so-mobile” home. How did the company’s products sell during the recession? As was the case with others, sales have shifted considerably to smaller, single-wide homes away from the more luxurious multiwide homes.<sup>9</sup> Sales very much became a function of the monthly payment required for each product. Those who formerly could afford a

<sup>8</sup>Three of Guerdon’s plants are in Georgia, two each are in Florida and Arkansas, and one each is in Alabama, Mississippi, Kansas, Nebraska, Idaho, Oregon, and California.

<sup>9</sup>“Single-wide, double-wide, and multiwide” refer to the number of rooms across the width of a mobile home. A single-wide is one room in width; a double-wide or other multiwide has two or more rooms. Most multiwide homes are produced in single-wide sections that are joined on site.

double-wide may have recently been able to afford only a single-wide. Profit margins were squeezed as a result of a tighter market.

During the worst of the recession, this firm did not have a significant inventory problem. Carrying costs (interest charges) were manageable because Guerdon (like most in the industry)<sup>10</sup> "builds on order." Only when a sales contract is signed, does a home to fill that order go into production. The company expects 1983 to be better than 1982. They have already seen a pickup in sales. The company also believes that the second half of the year will be stronger than the first half.

Cardinal Industries (based in Columbus, Ohio) is one of the newcomers to the region. The company also is in one of the more novel branches of manufactured housing—the firm primarily manufactures apartments for full developments and

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**“Georgia leads the region in production of factory-built housing units.”**

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for motels. The market strategy of the firm exemplifies those in the industry who moved to the Southeast in order to follow population flows. The company's first plant in the Southeast was built in Columbus, Georgia in 1954. Originally, this plant produced manufactured building components—in 1970 it was converted to produce modular housing. Following population movements, Cardinal expanded into Orlando in 1976 and into Atlanta in 1982. A second plant was also built in Columbus (Georgia) in 1982. As one company official stated, the company likes to enter existing markets in densely populated areas where demand is strong, labor is readily available, and transportation networks are "completed."

The company's production philosophy is partially indicative of the industry's desire to make a high-quality, low-cost product. It also shows a new trend in the management and marketing of company products. Cardinal Industries follows the philosophy of developing the product first and then marketing the product rather than the reverse philosophy of "chasing the market." By specializing in a limited number of products, resources can be shifted to managing the "environment" of the products. By managing land, setting up the operation of apartments and motels, and arranging financing, for example, Cardinal is better able to service its customers.

Cardinal Industries has fared well over the past decade. For the past 13 years, the company's revenue has grown at a 30 percent compounded rate. Some of this can be attributed to its preparation for the latest recession by placing more emphasis on expanding into the apartment market. Cardinal Industries expects an upturn in the overall economy to improve business in 1983.

Though not all builders of fabricated housing have fared well during the recession, Malone Homes (based in Dothan, Alabama) is an example of one that has. The company also provides an example of how fabricated producers can maintain business during recession. Malone Homes is very diversified in its field—products range from small single-family dwellings of less than one thousand square feet to multi-million dollar apartment complexes. However, most of its houses are selling in the \$60,000 to \$90,000 range.

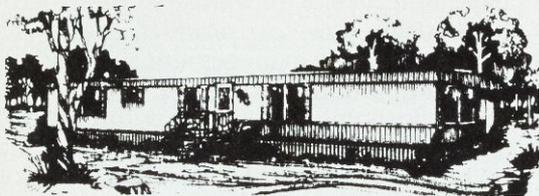
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**“About 70 percent of the producers of prefabricated wood homes and components have 50 or fewer workers.”**

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Since 1958, Malone Homes has been a producer of panelized homes. This company started in conventional home building in the 1940s and began organizing materials in an efficient manner just by bundling materials together before going on site. Eventually, this system was expanded into

<sup>10</sup>In December 1982, mobile home dealers in the United States had less than a one month's supply of homes on dealer lots whereas the supply of new one-family houses was enough to last approximately six months based on the sales rate for that month.



manufacturing various component parts. This finally led to the decision to produce panelized housing. Today, the company loads panels onto a flat-bed truck and, after getting to the construction site, can have a house basically completed after only three days. The interior and siding are finished by a local builder.

Like other home builders, this company is marketing according to where the population is growing—50 percent of the company's business is in Florida. Malone—in contrast to some firms—finds that the supplies of lumber and plywood around Dothan play a significant role in determining plant location. Plywood is used for roof sheathing and lumber is used for roof trusses. However, timber for studs does come from the Northwest and Canada.

During the recession, Malone placed more emphasis on multifamily housing. The company's multifamily apartments are based on multiples of duplex units. Most of its apartments are relatively small—either duplex or quadruplex units—though the developments may contain many such units.

During the recession, Malone decided to concentrate more on the small investor. Local sales representatives would convince local builders that the multifamily market would be stronger than the single-family market. In turn, builders and sales representatives sought out “small” local investors such as doctors, lawyers, and other professionals in the local community to invest in developments using Malone's products. Furthermore, sales representatives worked with local banks in order to obtain the necessary financing to go with investors' funds. Malone's strategy was successful—a company spokesperson indicated that the shift to multifamily housing together with a full-fledged marketing approach was primarily responsible for an increase in revenue in 1982 over 1981. For this fabricated housing producer, marketing is a key component in sales strategy.

## The Special Problems of Factory-Built Housing

Although the production of mobile homes held up remarkably well during the recent recession, factory-built housing (panelized, pre-cut, and modular) did not do as well. Units produced fell by 62 percent in the nation from 1978 to 1982 compared with a more modest decline of 18 percent for shipments of mobile homes. Much of the decline can be attributed to an undeveloped marketing structure; the remainder is primarily a result of overhead cost problems.

Factory-produced housing is a very close substitute for stick-built housing. Theoretically, this portion of the manufactured housing sector should hold up better during recession than

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**“Factory-built housing did not fare as well as mobile homes during the recession.”**

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conventional housing since the per unit cost can be cheaper. However, there must be sufficient demand for the homes in order to maintain an efficient level of production in the plants. Unfortunately, many producers depend on conventional builders to erect the homes instead of developing their own system of retailers and builders. In boom times, conventional builders will use factory-produced housing so as to keep up with demand. In times of slack demand, these builders will do all—or as much as possible—of the construction work.

Another reason that factory-produced housing declines more in recession than conventional housing is that these producers have larger overhead costs than conventional builders. While conventional builders “operate out of a pick-up truck,” factory producers must pay the expense of operating a plant. If sales are too few to pay these operational costs, then closing the plant is a rational decision. Factory producers must have a larger minimum amount of sales in order for unit costs to be low enough to leave a profit.

Some factory producers during recession do manage to switch from building entire houses to becoming a supplier of components for (partially

and completely) manufactured housing. This reduces output numbers for factory-produced housing units but does still aid employment in the factory-produced housing industry.

Although the future of factory-built housing is promising, the industry must overcome several problems. This sector needs to mature in its marketing techniques. Producers must tie output more to their own builders in order to remain stable during recession. Also, these producers must develop ties with the financial community similar to those of mobile home producers. The fact that mobile homes can now qualify for conventional, FHA, or VA loans for 30-year terms indicates the cohesiveness and marketing "savvy" of the mobile home industry as a whole. While factory-built homes can qualify for these same mortgages (and did so before mobile homes could), these producers overall have not acted as far-sighted in their marketing and financing strategies as have mobile home producers.

### **New Trends in Manufactured Housing**

Competition and consumer demands are bringing about a variety of new trends in the manufactured housing industry. In the "mobile home" component of this industry, a greater number of firms are becoming more self-sufficient. Producers are responding to the quality-conscious consumers by developing homes that look very "conventional." Developers are responding to the demand for quality by introducing "developments for manufactured housing" as a replacement for "mobile home parks."

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**"A few innovative developers are introducing 'developments for manufactured housing' . . . with paved, winding roads, more trees, and even clubhouses."**

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Mobile home manufacturers are becoming more self-sufficient. This cost-cutting trend has been encouraged partially by recession. The firms that are producing some of their supplies

are primarily producing input products that do not require a lot of capital or technology. Many such input products typically include furniture, cabinets, and draperies. Some firms have even begun fabricating metal for some parts. One other approach taken by some producers to reduce supply costs is to act as broker for their own supplies rather than go through a "middle man."

Mobile home producers continue to compete in product quality. Styling will be very much a part of further quality improvement in the future. As mobile homes look more like conventional homes, so do consumers demand a life-style that more closely resembles conventional housing neighborhoods. In response to this demand, a few innovative developers are introducing "developments for manufactured housing." The traditional "mobile home park" may give way to developments with paved, winding roads, more trees, more stylish housing units, and even clubhouses and shared recreation facilities.

Manufacturers of multifamily housing are also seeing some new innovations. The recession has made multifamily housing a more attractive market; still the market has been tight. In order to ease the entry of investors into the market for multifamily developments, producers of this type of housing are paying more attention to the "environment" of their product. The physical production of housing units is fine-tuned and "routinized" so that management resources can be shifted to managing the environment of multifamily developments. Maintenance of this environment includes helping developers with site preparation plans, landscaping before and after completion of construction, planning traffic flow, helping to set up the management plans for the development, and arranging financing.



A recent innovation of a few firms working with multifamily markets is to set up a financial subsidiary to sell securities to interested investors in real estate developments using the parent company's products. Some of the incentive for this approach was a product of recession. A broader market base was needed to raise the level of investment. In order to attract more (including smaller) investors, a method of setting up developments financed through marketable securities led to the use of financial subsidiaries.

Many producers of manufactured housing are increasing the amount of marketing for their products. In the past, these companies would act as a "jobbing service." Each housing unit—or job—would only be produced after receipt of the order. Of course, the order would include the various options chosen by the purchaser. Even today, most producers of manufactured housing only produce "on order." In contrast, some firms are shifting strategy. More firms are marketing their products "as is" and selling only the homes as designed. This approach reduces construction costs. Still, producers are pushing more luxurious models and do have a large variety of choice. However, the emphasis is more on marketing fewer total products in greater quantity to meet consumer wants.

### Exports of Manufactured Housing

The export market appears to offer some potential for producers of manufactured houses. Although the volume of exports thus far is extremely limited, sales of mobile homes have been made in areas where construction labor is scarce. Oil field areas and government sponsored housing developments in the Middle East and in Latin America have accounted for most of the market.

Some of the problems that need to be solved before export markets can be expanded significantly are, first, the lack of market development

by producers. No firms are known to have an "export division." Sales abroad are made through export agents who first contact an individual company. Since foreign buyers usually know little about manufactured housing, they often seek business with the large national firms. Even when approached by an agent for a foreign sale, firms sometimes decline the contract because of various production problems. Second, units produced for export must meet foreign building standards. In particular, the wiring and plumbing are often completely different from U.S. regulations. Third, transportation costs are expensive. Manufactured houses are easily damaged during transport and must be specially "stacked" into cargo ships. By the time the housing units reach their final destination, the cost is often double the cost leaving the factory. Some feel that these obstacles can be overcome; that when economies abroad improve, there is potential for export development, particularly in the Middle East and Latin America.

### Summary

The manufactured housing industry is growing (primarily in mobile home production) in the Southeast. The chief factors causing this growth are a growing population, movement of supplier industries to the region and, to a lesser degree, a warmer climate. Mobile home production has held fairly steady during the recession as a result of the product's affordability and improved quality. Other types of manufactured housing have not fared as well because of producer reliance on local builders to "sell" the homes to the consumer. Also, the mobile home industry's marketing efforts (including the arranging of financing) generally have been more effective than those of fabricated housing producers.

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