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Manufactured Housing: Becoming Mainstream?

Dan Gorin

Numerous data sources provide a robust picture of the manufactured-housing segment of the American housing market. Yet, surprisingly, much of this information goes unreported, perhaps because stereotypes lead most of us to conclude that this is an extremely limited market. Regardless, manufactured homes already represent more than 6.5 percent of all occupied housing in the United States, up from less than 3 percent 30 years ago. (See Table 1.) Even more impressive, by one measure, manufactured housing accounts for nearly one-fifth of all new housing in the country[1]. Another measure of the scale of manufactured housing is the ratio of manufactured homes placed to permits for single-family housing[2]. Nationwide, from 1994 to 2000 the number of manufactured homes that were placed equaled 29 percent of the total number of permits for single-family homes.

Why is manufactured housing becoming so prevalent? Since HUD standards came into effect in 1976, reliability and quality have improved. New consumer protection laws have helped, too. Consumers are also getting more of what they want: space and amenities. Nearly 97 percent of manufactured homes placed last year had at least three bedrooms. The increasingly popular double-wides averaged well over 1,600 square feet of space. Three-quarters of the homes came with central air-conditioning. Seven in 10 were placed outside of manufactured home communities. Cost is also a factor. Although the prices on these homes are going up, the average price of a double-wide is still about 40 percent of the price of a site-built house ($53,900 for the average sales price of new manufactured double-wide homes vs. $134,100 for the mean value of single-family units authorized by permit).

The trend to title manufactured homes as real property instead of personal property also seems to be boosting their popularity. As real property, such homes are likely to qualify for lower loan rates. Some research suggests that the real-property designation will also help these homes appreciate in value—certainly not a trend of the past.

Taken together, all of these factors seem to be enabling manufactured housing to compete on many levels with site-built homes rather than being a separate second-tier market. Considering that one in 15 households in America lives in manufactured housing, its acceptance as a mainstream alternative might be just around the corner.

Recent Developments

From 1994 to 2000, there were 2.27 million new manufactured homes placed by manufacturers; during the same time, permits were authorized for 7.83 million single-family homes. Sales of manufactured homes have been weak the past two years, but industry observers expect a rebound in the coming year as excess production capacity is removed.

In 2000, there were 10 states with at least 2.2 new manufactured homes placed per 1,000 residents. Four of these states are served by the Federal Reserve Bank of St. Louis: Mississippi, Tennessee, Arkansas and

Kentucky.

Nationwide in 2000, two new manufactured homes were placed for every 12 permits for single-family homes. However, the numbers show great variability across the country. At one extreme is West Virginia, the only state where the number of new manufactured homes placed exceeded the number of permits for single-family houses. At the opposite end of the spectrum is New England, where just one new manufactured home was placed for every 12 permits for single-family homes. Moving south, the percentage increases. In the region consisting of Alabama, Kentucky, Mississippi and Tennessee, more than six new manufactured homes were placed for every 12 permits. In eight states in all, new manufactured homes placed equaled at least 50 percent of the permits issued for single-family homes. Three of those states are in the Eighth District: Arkansas, Kentucky and Mississippi. (See Table 2.)

St. Louis Federal Reserve District

Among the 273,000 new manufactured homes placed nationwide in 2000, nearly 55,000 or 20 percent were in the seven states for which the Federal Reserve Bank of St. Louis has at least some jurisdiction: Arkansas, Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee. In comparison, these seven states comprise just 14 percent of the nation's population. As mentioned, from 1994 through 2000, the number of manufactured homes placed nationally was 29 percent of the number of permits for single-family homes. In the seven states served by the St. Louis Fed, the ratio was even higher—the 467,000 manufactured homes placed over these seven years equaled 46.4 percent of the total number of permits for single-family homes.

The trend away from single-unit homes to double-wides was most pronounced in this seven-state region. In 1994, fewer than 40 percent of the manufactured homes placed in this region were double units. By 2000, double units accounted for nearly 60 percent of manufactured housing. Nationwide, the number of single-unit manufactured homes placed in 2000 was down some 42 percent from 1994 while the number of double units experienced 34 percent growth. Prices of both manufactured singles and doubles are about 4 percent lower in the Eighth District states than the nation as a whole, which mirrors the differential between the regional and national values of permitted single-family homes.

Affordability and Ownership

The research on who lives in manufactured housing chips away at the stereotype of renters living in poverty. More than 75 percent of households with income below the poverty level that live in manufactured housing own their homes compared with a 44 percent ownership rate for all housing types. Further, at all income levels, ownership rates for manufactured housing (83.3 percent vs. 66.9 percent for all housing in 1999) are actually higher than for other housing types. (See Table 3.)

Obviously, affordability factors into the ownership choice of housing type as the median income for all households in owner-occupied housing was $46,616 in 1999 (70 percent higher than for households in owner-occupied manufactured homes). Slightly more than 8 percent of all homeowners lived in manufactured homes in 1999. Out of all the homeowners whose income is between 50 and 99 percent of the poverty level, 20 percent occupied manufactured housing. Even for those homeowners whose income is at least double the poverty level, 5.9 percent lived in manufactured housing.

Real Estate vs. Personal Property

One important trend in the industry is the move to title manufactured homes as real estate rather than personal property. Titling is necessary for participation in several government lending programs, for lower interest rates on collateralized loans and for packaging loans to sell to secondary markets. In 1994, fewer than 15 percent of manufactured homes were titled as real property nation-wide. By the year 2000, this had risen to nearly 25 percent.

Just this spring, Texas introduced legislation requiring that manufactured homes attached to real property be classified and taxed as real property as long as the land is titled to the homeowner under deed or contract for sale. The new Texas statute further requires that home installation satisfy the lending requirements of the Federal Housing Administration (FHA), Fannie Mae or Freddie Mac for long-term mortgage loans or for FHA insurance. Some states are even friendlier to manufactured homes, allowing titling as real estate regardless of the ownership of the underlying land.

Real property designation provides not only for better lending terms, but often is associated with property appreciation. However, other factors might also influence whether a manufactured home appreciates or depreciates. Some research suggests that changes in the value of manufactured homes are more likely to mirror those of the surrounding community. For example, manufactured homes in blighted trailer parks depreciate while those in stable neighborhoods mixed in among site-built homes may not.

The Future

The manufactured housing industry is changing, and even the current downturn does not diminish its potential. As site-built housing costs rise, manufactured housing becomes an increasingly acceptable alternative. Demographic trends favor this market because its historic customer base is skewed with very young householders and senior citizens. Marketing changes—such as a novel partnership with Fleetwood (one of the two largest manufacturers) which now brings the Sam's Club name to manufactured housing retailers in nine states—are expanding product awareness. Solutions to legal impediments (like titling), changes in regulation (such as updated building codes), gains in consumer protection (for example, the Home Ownership and Equity Protection Act) and consumer awareness efforts are working to make manufactured housing a mainstream housing alternative. As 20 percent or more of new homes continue to come from this source, the only real question is to what extent this alternative to site-built homes will capture markets in which it's currently not competitive, such as higher-income and big-city households.

Table 1

Manufactured Housing Units in the United States, 1970 to 1999

Year	All Occupied Housing Units	Mobile Homes or Trailers	Percent Manufactured Housing
1970	63,449,747	1,850,412	2.9%
1980	80,389,673	3,889,154	4.8%
1990	91,947,410	6,133,997	6.7%
1999	102,803,000	6,785,000	6.6%

SOURCES: U.S. Bureau of the Census, decennial censuses and 1999 American Housing Survey

Table 2

Ratio of New Manufactured Homes Placed to Number of Permits for Single-Family Houses

Year 2000 Rank		1994	2000
	United States	21.2%	17.1%
1	West Virginia	160.1%	106.3%
2	Wyoming	49.5%	75.9%
3	Alabama	75.8%	71.8%
4	Mississippi	75.0%	71.0%
5	Arkansas	46.1%	70.6%
6	Montana	52.9%	54.4%
7	Louisiana	42.6%	53.0%
8	Kentucky	53.4%	51.5%
9	Oklahoma	33.7%	49.3%
10	New Mexico	40.7%	47.4%
11	Tennessee	45.5%	43.8%
16	Missouri	31.1%	25.1%
22	Indiana	21.5%	17.4%
40	Illinois	10.5%	7.5%

States in red are in the Eighth District of the Federal Reserve System

NOTES: 1. The term "manufactured homes" includes multiwide and expandable homes but excludes travel trailers, motor homes and modular housing. 2. Population data for 2000 are from the decennial census and for 1994 from an estimates series. 3. Not all permits lead to building; not all housing construction requires a permit; data from manufacturers and permit-authorizing governments are markedly distinct. SOURCE: Manufactured homes placed and single-family housing permit data from the U.S. Bureau of the Census. See www.census.gov/ftp/pub/const/www/mhsindex.html and www.census.gov/const/www/C40/table2.html.

Table 3

Occupied Housing by Ownership and Poverty Level, 1999 (Amounts in thousands)

	All Housing		Owner-Occupied Units		Ownership Rates for Occupied Units		Mobile Homes Share of Units	
	Total		Total		Total		All	Owner
Poverty Level (%)	Occupied Units	Mobile Homes	Occupied Units	Mobile Homes	Occupied Units	Mobile Homes	Occupied Units	Mobile Homes
Total	102,803	6,784	68,796	5,648	66.9%	83.3%	6.6%	8.2%
Less than 50	6,526	500	2,989	387	45.8%	77.4%	7.7%	12.9%
50 to 99	7,738	878	3,287	656	42.5%	74.7%	11.3%	20.0%
100 to 149	9,268	1,022	4,856	787	52.4%	77.0%	11.0%	16.2%
150 to 199	9,669	914	5,644	750	58.4%	82.1%	9.5%	13.3%
200 or more	69,602	3,470	52,020	3,068	74.7%	88.4%	5.0%	5.9%

SOURCES: U.S. Bureau of the Census, 1999 American Housing Survey

Endnotes

1. This measure-the number of mobile homes built between 1995 and 1999 divided by the total of all housing built between 1995 and 1999, which equals 19.4 percent-is from the 1999 American Housing Survey. [back to text]
2. These data don't allow true "apples-to-apples" comparison for many reasons, including the following: manufactured homes placed might not require permits, permits might not lead to actual home construction or placement, and the comparison excludes multifamily housing. Still, these data are available at the state and metro levels, allowing for useful relative comparisons. [back to text]

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Using Capital Assets Wisely to Prosper: Shelbina, Mo., Pools Resources to Generate Millions of Dollars

As communities come to realize how the changing financial landscape is affecting community development, they will find that it is possible to build more resilient economies by becoming more knowledgeable about capital. Becoming a "capital literate" community means using capital assets wisely to survive and prosper. The story of Shelbina, Mo., (pop. 2,000) illustrates creative approaches being used by many communities.

In 1999, the Community Affairs Department of the Federal Reserve Bank of St. Louis began conducting community development finance training sessions throughout the District. Participants were asked to share their experiences in dealing with changes in the industry. Many mentioned the dwindling federal funds and the shift in responsibility to state and local governments; the growth of community development corporations; more sources of private money; and a shift from three or four funding sources and partners to as many as 10 in a single project. The discussions pointed toward a need for deeper understanding about how capital and credit markets behave.

Some approaches to community development finance have mistakenly created dependencies on public subsidies that may not be sustainable into the future. Many communities rely on federal and state grants as the sole source for community development. But good community finance requires building the skills to recognize and use capital assets wisely—for example, developing partnerships among a growing number of funding sources and addressing all partners' expectations for a return on their investment.

Shelbina: A Success Story

In the past three years, residents and officials in this northeastern Missouri town have generated $11.4 million in private and public contributions and grants by pooling their knowledge about using capital to leverage more capital. A common vision of community progress—usually difficult to achieve—is cited by community leaders as one of the town's greatest assets. Shelbina's philosophy is seen in the completed addition to the Carnegie Library. When library board members proposed to use architectural design elements and materials to match the original structure, they were told that the project would be far too costly. "Never tell us that something can't be done," said John Bode, economic development director for Shelbina.

Shelbina residents refused to accept that they couldn't afford to build an addition to their library that would match the original building. The addition is on the left.

What is Capital?

Capital can be created, grown, purchased or attracted. It exists in all communities and may take the form of money, raw materials, buildings, technology, human labor, information or skills. Leveraging capital expands the production of the community beyond the levels that could be attained without it and plays a large part in improving productivity, the standard of living and the quality of community life.

Capital goods and services make up a community's assets—that is, any advantages, resources, goods or services available for use by the community. An advantage may be location, access to information, proximity to excellent transportation routes and the existence of community organizations.

Examples: Community-owned properties are capital that play an important role in a town's growth.

- Unlike many small communities, Shelbina did not sell its publicly owned utilities. The water and electric plants and a natural gas pipeline distribution system are capital assets that expand the production capabilities of the community. A second electric power plant, which was completed in the spring of 2001, serves as a backup to the first plant and expands the community's ability to produce more capital goods and services. The system produces excess electricity that is sold through the Missouri Public Electric Pool, in which Shelbina is a partner. The utility's profit helps to pay for other public services and to keep tax rates in Shelbina low.
- The school district retained ownership of four FM radio frequencies when it was common among other districts to sell the rights. It uses one of the frequencies for internal communications and leases the other three to a cellular telecommunication company, bringing money into the district's operating budget.

How Do We Get Capital and Assets Moving in Our Community?

A local financial institution is important because money begins to circulate through communities as a result of savings and investments. This means that there must be not only sufficient capital but an excess of it to allow for savings and investing. As more money is generated, it can be used in combination with funds from individual developers and tax credit programs to finance local developments.

Examples: Farmers, corporation, theater group understand value of local money, programs.

- In Shelbina, a group of farmers recognized the importance of a local financial institution. When a local bank was scheduled to close several years ago, the farmers made investments to buy the bank and keep it operating. Now called the Community State Bank, it recently moved from the outskirts of town to a large new facility in the downtown area.
- The Family Farms Pork Corp. is taking advantage of Missouri's New Generation Cooperative Incentive Tax Credit Program. The program is designed to induce private investment in cooperatives, such as Family Farms, that process Missouri agricultural products into value-added goods. Family Farms recently received approval to begin raising capital from private investors. The cooperative hopes to break ground on an $18.5 million processing plant in Shelbina's industrial park next spring.
- Movies are shown and plays are performed at the new Hawkins Theatre. A state tax credit was used to attract $800,000 in private donations.

What Do Investors Expect from Communities?

Capital flows to the path of least resistance and greatest return. Capital follows well-laid business plans that communicate the expectations, time frames, risks and other essential information that help investors and partners make sound financing decisions. The community must have supportive rules, standards and operating policies, such as a special tax district and local ordinances that create confidence and attract investments.

Movies are shown and plays are performed at the new Hawkins Theatre. A state tax credit was used to attract $800,000 in private donations.

For an investor in community development projects, decisions about where to put capital include more criteria than that used in traditional investment decisions. Multiple bottom lines and alternative measures of return on an investment are always present. For example, community development tax credit programs and social venture investment funds are designed to fulfill political, social or economic goals in addition to providing financial incentives to the taxpayer or a financial return to the investor.

Choices remain difficult for investors because the same capital may have a better use or a greater rate of financial return if invested elsewhere. For example, an investor could place $1,000 in a 12-month certificate of deposit at a community development financial institution (CDFI) paying 3 percent interest or invest the same $1,000 in a 12-month certificate of deposit at a traditional bank paying 4 percent interest. Because proceeds from the deposit earnings to the CDFI are used for loans with a community development purpose, the investor may receive a lower rate of financial return but be willing to accept a moral, social or economic return on the investment.

Community development project officials seeking capital should consider why an investor would give up an alternative investment in favor of the project with a lower rate of financial return and be prepared to answer the question, preferably in a written business plan.

Why Does Some Capital Go Unused?

Capital may be unused, underused or otherwise not flow toward community development investments because of inadequate information about how to match it up with a development.

Examples: Trust funds and endowments lay dormant for years until persistent officials found a way to use them.

- A charitable trust fund restricted for the establishment of a hospital in Shelbina remained unused for decades. Many attempts were made through the years to find a way to put the money to use and operate a small community hospital. Eventually, descendants of the family that had established the trust were asked to allow a portion of it to be used for construction of a medical building instead of a hospital. The nonprofit Hannibal Regional Hospital agreed to become an investing partner and to operate the facility. The family agreed to alter the trust, and a $600,000 medical building was constructed by using $350,000 from the trust fund. As trustee, the city owns the building and leases it to Hannibal Regional Hospital. If for any reason it would cease to operate as a health facility, the building would revert to the trust. The trust retained approximately $75,000 in cash investments so that it might grow again.
- Substantial amounts of money in Shelbina, perhaps as much as $3 million, have recently been recognized as capital assets that could be put to greater use and leveraged to produce other capital assets. For example, the Carnegie Library has grown its endowment to $1 million during a period of about 70 years. In addition, school scholarship funds, two church endowment funds and two cemetery endowment funds are being considered as seed money in a three- to five-year capital campaign to create a community foundation. The body and earnings of individual trust or endowment funds would remain with each institution. Pooling the funds would enable the community foundation to leverage and attract other investments from sources such as the W.K. Kellogg or Ford foundations and future

contributions from individuals. The additional earnings and investments as a result of the community foundation would finance community development initiatives.

Glossary

If you want to be capital literate, you should know these basic terms.

Risk:

- Market risks: investor psychology, supply and demand and, the economic cycle.
- Social risks: dishonesty, corruption, illegal discrimination or unfairness.
- Political risks: instability, corruption, uncertainties associated with change in officeholder.
- Credit risk: possibility of default.
- Risk mitigation: any steps that can be taken to reduce risk.

Leverage:
the ability to use a small amount of money to attract other money, including loans, grants and equity investments. Leverage also refers to providing the organization with the tools it needs to raise other kinds of funds.

Collaboration:
the teamwork that is essential to structure and to implement savings and investing vehicles at the community level, especially to share market knowledge and mitigate risks.

Flexibility and customization:
the ability to tailor savings and investment programs, services and products to the unusual circumstances of markets or consumers. For example, microlending is right-sizing capital for businesses that have a need for small loans, usually less than $10,000.

Cycles:

the patterns that usually recur in business, investment and development. These cycles must be recognized and used to maximize savings and investments.

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As Bread Rises, So Does Hope for Youths' Careers

Juniper Bakery, a nonprofit business that teaches disadvantaged young people the trade of baking, has opened in Memphis. Youth services agencies refer clients aged 16-25 to the bakery, where they undergo a 16-week apprenticeship program. Apprentices are paid $7 an hour. After they graduate, they are placed in jobs with area restaurants and bakeries. Juniper Bakery products are available in area grocery stores, as well as at the bakery. Profits are used to support the apprenticeship program with the goal of making it self-sufficient. Among those that provided seed money are the Assisi Foundation, the United Way and Ben and Jerry's Hot Fudge Venture Fund. The building, which had once housed another bakery, was donated. Juniper Bakery's founder, Jonathan Koplin, hopes to see an entire apprenticeship village evolve in Memphis to teach all sorts of trades to young people. For more information, call Koplin at (901) 327-6091.

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Spanning the Region

Illinois Gives Grants to Close "Digital Divide"

Illinois has expanded its "Eliminate the Digital Divide" grant program to $30 million. The first 24 grants, totaling $1 million, have already been made. They will be used to help plan, establish, administer and expand Community Technology Centers to serve residents in many low-income communities. Recipients include the East St. Louis Action Research Project, the Greater East St. Louis Community Network Foundation and Southern Illinois University at Edwardsville.

The East St. Louis Action Research Project received $49,951 to provide Internet access to 12 technology centers in the East St. Louis area. The organization will first establish a broadband Internet point-of-presence at the East St. Louis Neighborhood Assistance Center through the Illinois Century Network. Broadband Internet access is expected to spur increased training courses offered through local technology centers.

The Greater East St. Louis Community Network Foundation received $36,800 to establish a technology center in Centreville. Among the services will be before- and after-school programs; basic computer skills training; Internet access; software installation and hardware setup; computer-assisted courses in business planning, reading and writing; and entrepreneurship training.

The university received $40,400 and will serve as fiscal agent for eight technology centers operating after-school programs in the East St. Louis School District. The grant money will be used for new computer equipment and installation, for upgrading existing equipment and for equipment maintenance training. Children will be trained in the use of the Internet and participate in an Internet-based mentoring program. A computer donation program will also be established to enable children to receive computers for home use.

For more information on the grant program, contact Jim O'Brien, Illinois Department of Commerce and Community Affairs, (217) 785-6146.

Local Money Sought to Offset Missouri Cutback

The Missouri Small Business Development Centers (SBDC) program is looking for assistance to make up for a cutback of about $500,000 in state matching funds.

The centers—nearly a dozen across the state—train about 7,000 small businesses each year in management, marketing and finance. The effort is a public/private partnership among the Small Business Administration, the University of Missouri System, a variety of local partners and 10 of the state's institutions of higher education.

"Clearly, a program that helps businesses create $99 million in increased sales and $12 million in increased profits, attract nearly $50 million in new financing and create more than 2,600 jobs is an excellent return on a half a million dollar investment," says Max Summers, Missouri SBDC state director.

The shortfall will have to come from a variety of sources, including local hosts, financial institutions, corporations, foundations and other local partners.

To invest in the centers, contact Alan Richter, regional director for the St. Louis Enterprise Center SBDC, at (314) 631-5374 or Summers at (573) 882-0344.

Habitat Comes Home to Louisville

The Habitat for Humanity MidAmerica Regional Support Center recently opened in Louisville. Community leaders, affiliate representatives, ministers and staff pounded nails into a giant playhouse symbolizing the houses that Habitat has and will build in Indiana, Kentucky, Ohio and Tennessee—the four states served by the new center.

The center provides assistance to 254 Habitat for Humanity affiliates, which are largely volunteer groups that build houses in their communities. The center's staff of 15 (four in Louisville and 11 in the field) provides training, expertise with fund raising, help in making connections with churches and donors, and assistance with administering loan and funding applications.

The regional office is located in the Spectrum Center, a former high school that was renovated and is now home to several non-profits. For more information, call the Habitat office at (502) 568-2656 or 1-877-885-5994.

Among those on hand for the grand opening of the Habitat for Humanity office were Louisville Mayor David Armstrong (in middle, in long-sleeved white shirt) and Meredith Kostyk, Habitat's regional director (in brown dress, sixth adult from the left).

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Resources

Arkansas Business Resource Guide

A pamphlet by the Federal Reserve Bank of St. Louis. This is a directory of organizations in Arkansas that provide technical assistance and/or financing to entrepreneurs and owners of small businesses. For copies, call Lyn Haralson at (501) 324-8240.

CRA Q&As

A document that answers frequently asked questions about the Community Reinvestment Act and that contains informal guidance for financial institutions and the public. This is based on a revision of the Interagency Questions and Answers Regarding Community Reinvestment (Q&As), published in the Federal Register on July 12, 2001. The Q&As are available on the Federal Financial Institutions Examination Council's web site at http://www.ffiec.gov/cra/regulation.htm.

How to File a Consumer Complaint about a Bank

A brochure by the Federal Reserve Board. This is available in English or Spanish (Como puede un consumidor presentar una queja acerca de un banco). To order copies in either language, call the Board's Publications Services at (202) 452-3245. You also may print the brochure from the Board's web site at: http://www.federalreserve.gov/pubs/complaints/ or www.federalreserveconsumerhelp.gov.

Memphis Area—Learn Before You Leap into Buying a Home

A new brochure from the Memphis Branch of the Federal Reserve Bank of St. Louis. It identifies organizations that provide home buyer counseling in the Memphis area. PDFs may be downloaded from the St. Louis Fed web site.

Crossing the Bridge to Self-Employment: A Federal Microenterprise Resource Guide

A joint publication by the members of the Interagency Workgroup on Microenterprise Development. This guide provides an overview of federally funded microenterprise programs. For copies, call the CDFI Fund at (222) 622-8401.