

Evolving the Model for Continued Improvement

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“The more things change, the more they stay the same.” In many ways, it is easier to describe what will not change about the manufactured home community of the future. Of course, home design, construction, amenities, and so forth will adapt with the times. But, the fundamental premise – and promise – of an affordable and quality lifestyle will continue to hold true.

In October 2012, the national median existing home price was \$178,600 while in 2011 the average new home price was \$267,900. Meanwhile, in 2011, the overall average sales price of a manufactured home was \$60,600 and \$40,600 for a single section home. The average cost per square foot to build a manufactured home is \$41.22 versus \$83.38 for a new site built home. This industry offers a quality lifestyle – at half the cost – with no signs of losing such an economic advantage. In fact, given the pricing compression that occurred with the economic crisis and the recent signs of recovery in the site built housing market, our value advantage should only improve from today.

Consider the following trends. The force of the wave of aging Baby Boomers will continue with 10,000 Boomers turning 65 every day. Although 65 was declared the official age of retirement in 1934 in the United States, the landscape for retirement is changing. The recent financial crisis has also impacted the notion of retirement for many individuals. A recent study by Wells Fargo shows that many retirement eligible individuals are choosing to delay retirement. According to the Gallup organization, today’s average nonretired American now expects to retire at age 67, up from age 63 in 2002 and age 60 in the mid-1990s.

While as many as 40% of Baby Boomers expect to “work until they drop,” fully 74% of workers believe they will need to work during retirement.

The same research shows a new low of 38% of non-retirees saying they will have enough money to live comfortably in retirement. A poll conducted by the Pew Research Center mirrors those findings and cites that 38% of adults are “not too” or “not at all” confident that they will have enough income and assets for their retirement; a significant increase from 25% in 2009. Other studies suggest just over one-third (36%) of Americans are not saving for retirement, while yet other research shows 30% of today’s workers currently have zero in retirement savings.

What do all these facts and figures mean for manufactured housing communities of the future?

Whether for first-time homebuyers with modest incomes or retirees looking to trim expenses, the data shows the traditional competitive advantage of affordability, combined with the consistently improving quality of manufactured homes themselves, will continue to encourage customers to consider living in a community. But, the challenge will be delivering the service and experience that an increasingly informed and sophisticated consumer will expect.

Our industry is certainly not immune to the forces of market transparency created by the ubiquitous influence of the Internet. Over 80% of housing searches start on the Internet and we should expect nothing less from our customers. We need to pay careful attention to avoid falling prey to “industry

identity theft” where a potential customer goes online to learn more about a community only to discover pictures and stories of old-style, aging and unkempt “trailer parks”. Do you have a Google search set up for your manufactured home community to monitor what is being said about your locations? Are you optimizing your website’s search results? These questions are intended to reinforce the point that residents (past, current, or prospective) are already likely talking your community today.

Focusing on the future, all manufactured home communities will need to have an Internet and social media strategy. Through these tools, our industry can promote the many attractive, safe and well-managed communities and combat the lingering negative perceptions.

Another aspect of the transparency created by the Internet is how our industry will continue to face the market realities of competition. Our residents and customers have choices when it comes to selecting a place to call “home.” We need to continue to improve our operations, our service and how we manage our communities if we are to compete successfully with home builders and apartment operators. For example, long-term, CPI-indexed leases can help eliminate what are perceived as arbitrary rent increases that may, in the worst cases, contribute to eroding home equity and, at a minimum, perpetuate frustration with outmoded industry practices.

Another trend likely to continue is the increasing regulatory burden that has hurt the smaller, independent operators of manufactured home communities and resulted in continued industry consolidation. As the saying goes, “All real estate is local.” Smaller operators can be every bit as good as large operators when they are similarly focused on the customer, believing it’s a privilege to be able to sell a home and

then own the neighborhood around it and recognizing they can impact people’s lives in a positive way every day. Regardless of size, the owner/operators who “get it” are those who accept these things as a special responsibility that derives from the unique business model of the manufactured home community.

With our obvious cost advantage, the demographic and economic trends that are moving our way, and a relentless focus on customer satisfaction, positive business results will draw into our industry what is most needed: capital. As more and more loan portfolios are seen (and documented) to perform well, capital will reenter the space. Community owners will facilitate this process by sharing some of the risk on new home loans and helping the capital do the things capital cannot do efficiently – such as processing and rehabbing repossessions, marketing the homes after repossession, etc. – all of which will significantly mitigate potential losses of the lender. Lending will be a partnership between lender and community owner because there are many parts of the asset recovery process for which the community owner is better equipped and more physically proximate to the collateral.

Manufactured home communities have a proud legacy. What will not change over the next ten years is the outstanding value for the dollar that we offer our residents. What will change is how we collectively lead, manage, and improve our respective operations with a singular focus of serving our customers and residents with the highest possible quality and respect. If we provide great value that can be demonstrated consistently, customers in search of quality affordable housing options will come to us, and as our market grows, so too will loan capital return. ##

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