



# Some Assembly Required

## *Using Manufactured Housing in Affordable Housing Development*

By Naomi Cytron

OCHI's Infill Homeownership Initiative at 94th & E Street in Oakland

Chances are that when you hear the term manufactured housing, the image that comes to mind is that of a dilapidated trailer park set off on the outskirts of town. But this image does not come close to matching how manufactured housing, which has improved dramatically in quality and design over the past decade while still maintaining low per-square-foot costs, is currently being used to provide affordable housing opportunities. Particularly in areas where the cost of construction has skyrocketed, nonprofit developers are taking advantage of advances in the manufactured housing industry to create new housing options for low- and moderate-income buyers.

There is a great deal of confusion regarding the terminology delineating the various forms that manufactured housing can take, which often leads to the “trailer park” misconception noted above. The outmoded term “mobile home” only refers to a unit built before 1976 under voluntary industry standards, and that product is quite different than a “manufactured home,” which again is distinct from a “modular” or “pre-fabricated” home. Manufactured homes, which are being employed most vigorously in the construction of affordable housing, have a metal or wooden chassis but can be permanently attached to site-built foundations and garages after leaving the factory as a fully assembled unit. Manufactured housing is regulated by construction and performance standards set by the U.S. Department of Housing and Urban Development (HUD). HUD codes supersede local regulations, creating efficiencies through product standardization and avoidance of delays from local inspections.

Modular housing is another form of factory-built housing that is gaining some momentum in use, due in part to architects across the nation using modular units to bring innovative design to the masses in an affordable and earth-friendly manner. Here, house “modules,” such as the kitchen or the

living room, are produced in a factory and then assembled into one unit on-site. These houses are built to local building codes rather than HUD code.

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Modern factory-built housing offers a cost-effective means of siting housing in a variety of settings. According to the Manufactured Housing Institute, the industry’s trade group, the average cost per square foot for a new manufactured home is less than half that of a site-built home (excluding land costs). More importantly, significant advancements in the industry in engineering, transportation, and materials technologies now allow for the construction of two-story manufactured units with pitched roofs, vaulted ceilings, and customizable exteriors, leading to a product that is indistinguishable from its stick-built counterpart.

Developers looking to reduce construction costs have caught onto the efficiencies presented by factory-built housing. HomeSight, a nonprofit community development corporation in Seattle, Washington dedicated to promoting affordable homeownership opportunities, was one of the first developers in the nation to utilize two-story manufactured units in constructing Noji Gardens, a 75-unit project incorporating single-family manufactured homes and townhomes with site-built houses. Using manufactured units for this development offered both cost and time savings



Market-rate and affordable manufactured homes at Homesight's Noji Gardens in Seattle

for HomeSight while allowing them to match the quality of site-built housing in their other developments. Homes were sold at prices 20 percent lower than Seattle's median home prices, with eligible buyers earning below 80 percent of area median income (AMI). Buyers were offered creative financing packages that included downpayment assistance and property tax abatements.

Nora Liu, Project Manager for Noji Gardens, said that when HomeSight was conceiving this project five years ago, they did not know what the level of acceptance for manufactured housing would be from the community. But the pilot units sold before construction was complete, and the rest of the homes were sold successfully. In addition, Liu said that the manufactured homes have appreciated at the same rate as the site-built homes in the area.

Liu noted that construction using manufactured housing raises some unique technical issues. Bringing housing to a site by truck requires careful consideration of road and site constraints, and the logistics of dropping the houses onto foundations by crane necessitate expertise on the part of the installer. In addition, some of the cost and time savings accrued through the use of manufactured housing at Noji Gardens were lessened by adding site-built elements such as garages. However, Liu said that these site-built additions were what allowed the homes to achieve design standards appropriate to the goals of community development and kept the homes from being just "double-tall rather than double-wide." Despite these limitations, HomeSight has found success in using manufactured housing in their affordable housing developments and is implementing lessons learned from previous projects as they continue to develop the use of manufactured housing.

Oakland Community Housing, Inc. (OCHI), a nonprofit housing developer that produces and manages both rental and homeownership units in Oakland, California, has taken a slightly different approach to utilizing manufactured housing for affordable housing development. In an effort to foster the reuse and revitalization of small and underutilized urban parcels scattered throughout Oakland, OCHI began to acquire empty and blighted lots through the California state law that allows tax-defaulted property to be sold to nonprofit housing developers who intend to convert them into housing opportunities for low-income households. The question for OCHI was how to cost-effectively develop housing on these small, scattered sites.

Eleanor Piez, OCHI's Director of Community Relations, noted that in looking for effective models, they found little local activity that used manufactured units to create affordable housing. But OCHI had strategic interests in orienting their work toward smaller projects with faster development timeframes and also saw the need to grow less dependent on increasingly competitive allocations of public funding. At the same time, they recognized that the manufactured housing industry was becoming more sophisticated and was developing the capacity to work with nonprofit developers with the agenda of promoting overall community health. With this convergence of factors, OCHI's manufactured homeownership development program, the Infill Homeownership Initiative, was developed.

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OCHI's first manufactured housing project, dubbed the 94th and E Street project, is a 4-unit development in East Oakland sited on a lot that had been used for upwards of 20 years as a site to dump trash in an otherwise residential neighborhood. OCHI was able to subdivide the lot, construct an adjacent street, and customize the homes on-site so that they fit into the context of the surrounding neighborhood. The homes are being sold at market-rate prices, but OCHI is making the homes affordable to households earning less than 80 percent of AMI through layered homebuyer subsidies. This pricing approach stems from OCHI's goal of economic empowerment for its buyers—their strategy is intended to allow low- and moderate-income homebuyers to build assets through ownership in the same way as higher-income buyers. OCHI has a number of other projects using manufactured units in their development pipeline, ranging from a single-unit infill project to a novel schematic for a multifamily project that would site manufactured units on top of a traditionally constructed, ground-floor commercial structure.





OCHI's multi-story manufactured townhomes under construction at Linden A in Oakland.


Amanda Kobler, Project Manager for the 94th and E Street project, noted that OCHI's infill strategy not only is allowing low-income families to access homeownership opportunities, but is also contributing to overall neighborhood stabilization and the transformation of a "gap-toothed" neighborhood into more a vibrant and cohesive community. In the past year alone, a number of homeowners on the blocks adjacent to the development have invested in home improvements and are rehabbing or even completely rebuilding their homes. "The project has made a huge impact on the street, and the homeowners there are thrilled at what in some ways is a renaissance of East Oakland," said Kobler.

There were some hurdles for OCHI to overcome in pursuing the use of manufactured housing, including the general prejudice against what has been perceived as "trailer homes." Additionally, OCHI found that for manufacturers and dealers of factory-built housing, working with affordable housing developers is relatively uncharted territory. Dealers have historically been set up to sell houses to individuals off the lot the way cars are sold, rather than thinking in terms of a continuing relationship with a developer working to put a number of units on sites with different requirements as far as configurations and exterior aesthetics. While some manufacturers are beginning to staff architects and engineers to

interface with developers to smooth this process, this can raise complications akin to having too many cooks in the kitchen. An understanding of the differences in language and culture of each industry is key to a good working relationship between manufacturers and developers.

A number of the financing elements for manufactured housing are also still a challenge. Because the timeframe for construction on manufactured units is shorter than for traditional construction, standard loan draw-down schedules may not be appropriate, and more flexibility is needed in structuring arrangements with lenders (For information on the financing of another OCHI manufactured project, see Box 3.1: Financing Manufactured Housing). For buyers, unfavorable interest rates are common because homes are often titled as personal rather than real property, and there is still some hesitation on the part of lenders to extend mortgage loans for manufactured homes because there is a lack of understanding of the stability and quality of modern manufactured housing. Another issue is that appraisals are often discounted simply because the units are manufactured or because there are not very many comparable units in the area. On the whole, more education is needed in the finance industry on the value of manufactured products.

In an effort to promote understanding of manufactured housing as an affordable housing issue and to increase its potential to serve as an asset-building housing opportunity, CFED, a national nonprofit that works to expand economic opportunity, has recently launched the Innovations in Manufactured Housing (I'M HOME) initiative. This program, slated to be a 5-year initiative, will provide grants for demonstration projects and offer a platform for collaboration and knowledge sharing among grantees. I'M HOME is meant to draw out best practices in the field, build capacity among developers, and inform the public, practitioners, and policy makers regarding the opportunities and challenges of manufactured housing. Chief issue areas for I'M HOME include breaking stereotypes about manufactured housing, addressing shortfalls in mortgage financing, enhancing long-term security for buyers, and tightening consumer protections. CFED intends to leverage the initial multi-million dollar program fund to incentivize additional investment in the sector (visit [www.cfed.org](http://www.cfed.org) for more information).

While there are certainly challenges in using manufactured housing as part of an affordable housing development strategy, the industry is maturing, and nonprofit developers are successfully incorporating manufactured housing into their development portfolios. With greater levels of resources and attention now being turned toward the approach, the potential of manufactured housing should only grow, particularly in areas where creativity is needed to override the obstacles to affordable housing development. As Kathryn Gwatkin Goulding, Program Manager for I'M HOME put it, "If one is trying to produce affordable housing in an increasingly difficult environment, one needs to bring to bear every weapon in the arsenal...and think outside the box." 

## Case Study: Linden A, Oakland, California

<b>Sponsor/Developer</b> .....	<i>Oakland Community Housing Inc. (OCHI)</i>
<b>Construction Lender</b> .....	<i>Silicon Valley Bank (SVB)</i>
<b>Loan Amount</b> .....	<i>\$1,987,000</i>
<b>Term</b> .....	<i>12 months</i>
<b>Targeting</b> .....	<i>Households earning up to 120 percent of AMI for Alameda County</i>
<b>Per Unit Cost</b> .....	<i>\$312,512 (Bay Area Median home price exceeds \$500,000)</i>
<b>Per Unit Sales Price</b> .....	<i>TBD but underwritten at \$270,000</i>
<b>Number of units</b> .....	<i>8 units in 4 duplexes</i>

**Sources for homebuyer first mortgages:** California Housing Finance Agency first mortgages (CalHFA); CalHFA downpayment assistance programs including HiCap and CHDAP funds, and the School Facilities Fee Downpayment Assistance Program; and developer equity soft debt.

**Description:** Linden A is a project of eight manufactured housing units. The eight units are in four two-story duplexes over “stick-built” garages. Most units are three-bedroom, three-bath and range from 1,500 to 1,700 square feet. The land was donated by North Oakland Missionary Baptist Church.

**Benefits:** A reduced cost of construction – about 35 percent below traditional construction – and a reduction in cost and time in the entitlement process were the primary benefits. Due to the cost savings in construction and fees, the project could be completed with only a conventional construction loan, alleviating the need for the time consuming and hence expensive pursuit of public funds. Subsidies will be used in the permanent financing phase to bring the end cost of the homes down for the home purchaser, but these subsidies come through the buyer, not the developer. These programs for permanent financing for homeowners are more plentiful and more easily accessed than traditional subsidies available for affordable housing developers.

**Risks:** The factory required 50 percent of the construction costs upfront. SVB extended the funds without a guarantee from the factory and without a project to secure. Other banks were not willing to do this for OCHI. While SVB had a first trust deed on the land, the funds needed were more than the land was worth. SVB mitigated this risk by requiring phased delivery and construction of the units – no more than three units could be under construction and in transit at any one time. Requiring that the units be delivered before extending more unsecured funds helped SVB get comfortable with the risk of lending unsecured and transporting the units from Oregon to Northern California. Overall, SVB was able to work with OCHI in structuring a loan draw-down schedule that both reduced risk for SVB and met OCHI’s financing needs.

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