WELLS FARGO

Commercial Real Estate

2022 Manufactured Home Community Market Update and Financing Handbook

By Tony Petosa, Nick Bertino, Erik Edwards, and Matt Herskowitz

About the authors

Tony Petosa, Nick Bertino, Erik Edwards, and Matt Herskowitz specialize in financing multifamily properties — manufactured home communities (MHC) and apartments — for Wells Fargo Multifamily Capital. They have more than 80 years of combined experience in the industry, and are active in numerous trade associations and advisory councils advocating expanded lending opportunities within the MHC sector.

Wells Fargo offers Fannie Mae (FNMA), Freddie Mac (Freddie), CMBS (conduit), balance sheet, FHA/HUD and correspondent lending programs. Since 2000, Wells Fargo has originated more than $15 billion in financing within the MHC sector, and has been the #1 commercial real estate lender in the U.S. since 2009 according to the Mortgage Bankers Association (MBA).

If you would like to receive future newsletters and handbooks like this, contact us by email or at the phone numbers provided to the right.

Tony Petosa
Managing Director
1808 Aston Ave., Suite 270
Carlsbad, CA 92008
760-438-2153 office
760-505-9001 cell
tpetosa@wellsfargo.com

Nick Bertino
Managing Director
1808 Aston Ave., Suite 270
Carlsbad, CA 92008
760-438-2692 office
858-336-0782 cell
nick.bertino@wellsfargo.com

Erik Edwards
Director
1808 Aston Ave., Suite 270
Carlsbad, CA 92008
760-918-2875 office
760-402-1942 cell
erik.edwards@wellsfargo.com

Matt Herskowitz
Vice President
1808 Aston Avenue, Suite 270
Carlsbad, CA 92008
760-918-6571 office
760-421-9222 cell
matthew.herskowitz@wellsfargo.com

We would like to extend a special thanks to Greg Murphy of Nova Group, GBC for contributing the article “Physical and Environmental Due Diligence: Action Steps to Avoid Problems and Delays” in Section 1; attorneys Brian Iwashyna, Ned Cox, and Zack Imboden of Troutman Pepper for their input pertaining to oral leases discussed in the article “Preparing Your Property and Information for Financing” in Section 2; and Darren Krolewski and Patrick Revere of *Datacomp* and *MHVillage* for contributing the article “Manufactured Homes: Quick Facts and Stats” in Section 2.

Contents

Preface **4**

Section 1: Market update **5**

In and around the headlines 6

Lending alternatives 8

GSE financing for MHCs with tenant pad lease protections 11

Physical and environment due diligence: action steps to avoid problems and delays 13

Section 2: Financing handbook **15**

A framework for assessing loan alternatives 16

Fannie Mae and Freddie Mac: an inside look 17

Preparing your property and information for financing 19

MHCs and flood zones 22

Manufactured homes: quick facts and stats 23

Captive home finance programs 28

Appendix **29**

32nd Annual Allen Report (2021) **30**

Manufactured home community questionnaire **34**

Glossary of lending terms **36**

Preface

Preface

We published our first edition of this Handbook in 2006 at the suggestion of and with encouragement from George Allen, CPM Emeritus, MHM-Master. After being regular contributors of articles for George's newsletter and other trade publications, George made the observation that a Handbook with periodic updates would be a useful resource that both educates readers and promotes our lending activities. For this inspiration, we thank George.

Our goal is to provide insight on recent lending trends, economic conditions, and underwriting considerations impacting the financing of Manufactured Home Communities (MHCs). Hopefully for our readers this Handbook pulls back the curtain on how lenders and other market participants view the MHC sector. We also include additional commentary on the Federal government's role supporting lending programs as part of their mandate to back affordable housing.

Much has changed since our first edition in 2006. Overall, MHCs have fared very well during various economic cycles, including the Great Recession and COVID-19 pandemic, and have gone from being an afterthought for many to one of the most in-demand property types for both lenders and investors. While challenges and risks may lie ahead, we do believe the MHC sector will remain resilient.

— TONY, NICK, ERIK, AND MATT

Section 1:
Market update

In and around the headlines

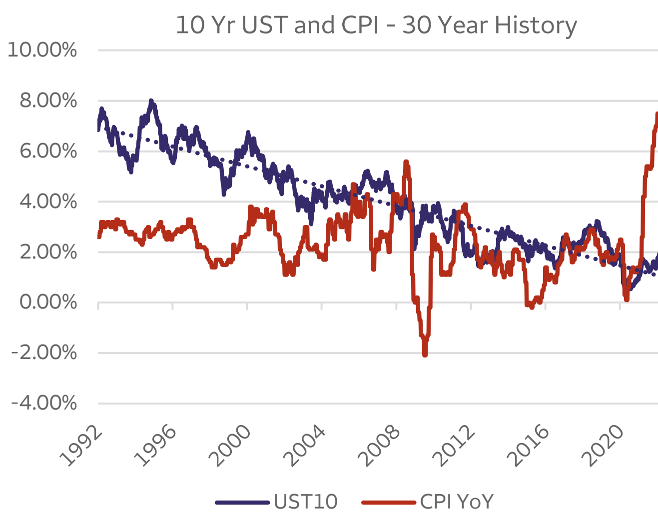
In the past year we have emerged from a pandemic that altered work and personal lives in unprecedented ways. After an abrupt shutdown, the economy rebounded strongly in 2021 fueled by monetary and fiscal stimulus resulting in labor shortages, supply chain log jams and inflation. Unlike other recent economic cycles, white-hot inflation has moved into the headlines as the Federal Reserve Bank (Fed) balances its dual mandates of price stability (with moderate long-term interest rates) and full employment. The Consumer Price Index (CPI) is running at its highest level in four decades and Treasury rates have been on a steady rise in 2022 with the 10- year Treasury yield eclipsing 2.50% in March, marking a two-year high and an approximate 200 basis point increase from the Treasury's all-time low of 0.51% in August 2020. On the heels of this, war broke out in Eastern Europe, adding geopolitical uncertainty and an economic embargo to the already daunting task facing Central Bankers. With that said, MHCs continue to experience stellar performance, and are well-positioned to return favorable results as the markets navigate the volatility that likely lies ahead.

In March, the Fed approved a 0.25 percentage point rate hike, the first increase since December 2018, and further increases are expected at each of their remaining 2022 meetings. The Fed faces a difficult challenge of tapping the brakes on the economy without breaking the economy and sending it into a prolonged recession. The desired "soft landing" may be difficult to maneuver as the Fed has many, sometimes conflicting, factors to consider as it tightens policy. The Fed has the most direct impact on short-term interest rates through its open market committee (FOMC), which sets the federal funds rate - the interest rate applied on overnight loans from one financial institution to another. While the FOMC does not set market rates such as Treasury yields, changes in the federal funds rate along with the Fed's policies and pronouncements are followed closely by market participants, and market rates respond accordingly. Besides setting the federal funds rate, the FOMC also establishes Fed monetary policy which, in order to provide market stability, authorizes the Fed to purchase securities (bonds), commonly known as quantitative easing (QE). Through QE the Fed buys securities on the open market, providing a liquidity backstop and lowering the yield on bonds during times of capital markets upheaval like we experienced the past two years. QE stimulates lending and investment activity by keeping rates lower during times of market disruption. In March 2020, the Fed injected more than $700 billion in bond purchases, and in June 2020, it added monthly purchases of $120 billion of bonds – $80 billion in U.S. Treasury securities and $40 billion in mortgage-backed securities. That program continued until December 2021 when QE began being phased out.

The economy snapped back following the sudden and severe recession experienced during the first half of 2020. The economy in 2021, as measured by Gross Domestic Product, grew at an annualized rate of 5.7%, marking the fastest rate of growth in a calendar year since 1984. However, inflation picked up throughout the year with the CPI growing by 7%, the largest calendar-year change in the cost of living since 1981. In the first quarter of 2022 year over year inflation is running at about 8% with energy prices spiking even higher, which has forced the Fed to take action. The Fed reduced its monthly $120 billion in bond purchases by half in December, and plans to curtail the entire strategy by March 2022. Many market observers thought the Fed should have moved to tighten sooner given the low unemployment level. Employers added 678,000 jobs in February as the employment rate declined to 3.8%, the lowest level since the coronavirus pandemic impacted the economy two years ago. The "Great Resignation" and reduction in the number of people looking for work was a complicating factor as we had little historic precedent for addressing a sudden global economic shutdown.

Given all of this uncertainty, it is worth re-visiting historic averages for perspective and insight into the

economic environment in the years ahead. In statistics, regression toward the mean is the concept that extreme measurements or outliers in a defined group will be closer to the average over time. Outliers in economic statistics occur during times of upheaval and then typically move closer to the average as more measurements are made. Because the 10-year Treasury is a common index used for fixed rate loans, we should consider the following: over the last 20-year and 30-year periods, the 10-year treasury yield has averaged 2.97% and 4.01%, respectively. These periods include a low rate (outlier) environment during the Great Recession and another during the COVID-19 pandemic. Inflation for decades had remained tame as the Fed prioritized maintaining a low inflation environment, and year over year CPI increases averaged approximately 2.5% over the past 30 years. By managing inflation, the Fed was also able to maintain price stability as shown below in the 20 year history of the 10-year treasury yield.



While many have been for years predicting materially higher interest rates, we now appear to be facing the possibility of rates above historical averages for the next several years as taming inflation becomes the top priority. Inflation is a political liability that impacts fixed and lower income households particularly hard, and we believe the Fed will be willing to slow the economy to rein in inflation in a tight labor market. On top of increases in the fed funds rate, the market also has to absorb the impact of the removal of QE, which will result in a tighter money supply and further upward pressure on rates.

Demand for housing remains very strong due to lagging new construction and supply shortages, and demand for rental housing should remain high even if homes sales fall off due to higher rates. While MHC operators will face challenges in the months ahead, the good news is that operators should benefit from higher rents, strong occupancy, and a continued increase in property values. In the 4th quarter of 2021, RealPage and Freddie Mac reported that apartment rents nationally increased 14.9% year over year. According to a Fall 2021 JLL Manufactured Housing Research Report, MHC average monthly rents hit an all-time high at mid-year 2021, and property valuations also reached an all-time high as investor demand remained robust. Occupancy and rent growth are expected to remain strong and, often limited by only the availability of new home inventory, operators are reporting favorable absorption of vacant sites. The multifamily sector is increasingly viewed by real estate investors as a safe haven due to its resilience during various economic cycles and times of turmoil.

While much remains to unfold, we are optimistic about the prospects for MHCs going forward. The disruption from the COVID-19 pandemic further increased the discussion around the pressing need for more affordable housing, and many believe that manufactured housing and MHCs can play a key role addressing the nation's housing shortage. Furthermore, we are seeing a much wider acceptance by both operators and lenders of the home rental model in MHCs, and this model can increase the feasibility of new MHC development, which is key to the growth of the sector.

Lending alternatives

Due to the strong historical performance of MHCs, borrowers continue to have an abundant array of attractive financing options available for acquiring or refinancing MHCs. While the same lending alternatives have been available for several years — the GSEs, conduit (CMBS) lenders, life insurance companies, banks, and debt funds — each lending program offers distinct advantages and disadvantages in underwriting parameters, loan structures, rates and how the lender responds to the whims of the market. The following discussion provides an overview of the current lending environment and alternatives for MHCs and the overall multifamily lending market.

GSEs

FNMA and Freddie are the two GSEs that actively lend on MHCs, and both have proven to be reliable sources of financing through numerous market cycles. (For an in-depth look at the history and MHC lending criteria of the GSEs, refer to the article "Fannie Mae and Freddie Mac: an inside look" in Section 2 below.)

Both Freddie and FNMA have been responsive to market changes in the MHC sector. For example, both GSEs over time have become more comfortable with higher percentages of rental homes within MHCs, and they have also demonstrated an increased willingness to lend on well-maintained two and three-star quality properties in most markets based on solid operating history and professional management. This is consistent with their push in recent years to lend on workforce housing.

When the COVID-19 health crisis hit, both GSEs continued lending while other commercial mortgage lenders paused their activities. The GSEs did make some notable changes, however. As the nation went into lockdown, millions of Americans were furloughed from work or lost their jobs. This raised major concerns about the ability and willingness of residents to pay rent. Also, many states placed a moratorium on evictions, which gave landlords few options. To address these concerns, the GSEs implemented an upfront debt-service reserve (DSR) requirement to ensure sufficient cash was in place to cover loan payments in the event rent collections and/or occupancy declined due to the pandemic. . Today, with COVID-19 entering the endemic stage and the world working to return to normal, the GSEs no longer require COVID reserves on new loans and the reserves that were collected on past loans at the onset of the pandemic have been, in most cases, released back to borrowers. As we predicted last year, the GSEs quickly eliminated the need for these reserves due to the strong performance of the MHC asset class both before and throughout the pandemic. In 2021, the GSE's combined MHC lending volume was $5.25 billion, which was higher than their prior 5-year average of $4.71 billion.

Another new development with the GSEs' MHC lending programs relates to the new lending caps announced by the FHFA in late 2021, which include how MHCs will be categorized within the GSEs' Duty to Serve mandate. (Refer to the below article "GSE MHC financing with tenant pad lease protections" for more details on this development.)

Currently, maximum leverage for GSE loans are typically sized using a 75%-80% Loan-to-Value ("LTV") with a minimum 1.25x Debt Service Coverage Ratio ("DSCR").

Generally speaking, the lower the LTV and higher the DSCR of any given loan, the lower the quoted interest rate spread will be. However, larger loans (typically $6 million or more) currently garner significantly better pricing than smaller loans. GSE loans are nonrecourse and typically allow borrowers to apply for a supplemental loan (second trust deed) after the first year of the initial loan term, which is a feature that distinguishes GSEs from most non-agency lenders whose standard programs prohibit secondary financing.

Commercial Mortgage Backed Securities (CMBS) Lenders

CMBS, or conduit, lenders originate and pool loans that are sold in the capital markets. CMBS loans first gained popularity in the 1990s, filling a void in traditional lending that resulted from the savings and loan (S&L) crisis and the prolonged lending downturn that followed. The CMBS and securitization market provides lenders with liquidity by enabling them to sell their loans and distribute risk across a large pool of investors with different appetites for risk and returns.

The CMBS market went into hibernation during the Great Recession. Higher loan delinquencies during this time resulted in extensive CMBS bond defaults, making it difficult to attract investors back to the market. In 2010 the CMBS market began to reemerge with early transactions benefiting from more reasonable underwriting parameters. Annual CMBS volumes have continued to increase, benefiting from stable capital markets and improved pricing.

The CMBS industry and the banks which are its core participants are subject to provisions of the Dodd-Frank Act, which was enacted in 2010. It requires lenders to maintain risk in the loans they originate after the loans are securitized by retaining some of the securities in the loan pool. There was much trepidation leading up to the implementation of the CMBS risk-retention rules that went into effect in December 2016. However, the concerns that the requirements would increase spreads did not play out as bond buyers have actually embraced the risk-retention structure and most prefer lenders having "skin in the game."

CMBS loans are nonrecourse, allowing sponsors to keep contingent liabilities off their books, and typically feature 10- year balloon payments with a 30-year amortization (full-term or partial interest-only is typically available depending on leverage). Similar to GSE loans, LTVs on conduit loans will typically be limited to 75%-80% LTV, and lower leveraged loan requests will usually receive lower interest rate spreads compared to full leverage transactions. Unlike GSE loans, however, CMBS loans typically prohibit secondary financing.

CMBS lenders have demonstrated a willingness to lend on a higher leverage basis on lower quality MHCs, and also to borrowers who may have credit blemishes in their past. Furthermore, CMBS lenders have once again become a viable option for MHC borrowers as they have become more competitive on pricing for smaller sized loan transactions.

If you ultimately choose to move forward with a CMBS lender, it is important to choose one that has demonstrated its dedication and capacity to staying in the CMBS market for the long haul. It is also a good idea to select a CMBS lender that is involved in the securitization of the loans they originate. It is recommended for a borrower to seek a CMBS lender that also offers balance sheet loans as a backup option if needed. And, of course, be sure to work with a CMBS lender with a proven track record of closing MHC transactions.

Life insurance companies (lifecos)

Lifecos have an ongoing need to invest money in long-term, fixed-rate investments, which include commercial real estate loans with defined maturities. Lifecos are usually portfolio lenders (not selling loans after origination) and they are less affected by the day-to-day fluctuations of the capital markets. However, they do respond throughout the year to market conditions, and individual lifecos can become less competitive later in the year as they fill their annual lending allocations. Some lifecos will work directly with borrowers, particularly on larger transactions, but most of their loans are generated through networks of mortgage bankers who may also service the loans they originate.

Historically, lifecos have been more focused on lower

loan- to-value (LTV) transactions, but many have recently demonstrated more willingness to move up the LTV scale for high quality properties and sponsors. Still, lifecos tend to be more selective on asset quality when assessing MHCs, and they also prefer larger loan transactions (often $20 million or higher). Like GSE and conduit lending programs, lifeco loans are non-recourse. Because their loans are typically held in portfolio, lifecos can often be more flexible in offering early rate locks, longer loan terms, and modified prepayment penalty structures.

Banks

Banks and also credit unions can be an attractive alternative for financing MHCs, but their lending tends to be relationship focused. While some banks have a good understanding of MHCs (i.e. strong credit performance) and will therefore quote aggressive loan terms, others view MHCs as "special purpose" real estate and will only lend on a conservative LTV basis and/or on a short amortization schedule.

In contrast to the non-recourse lending options provided by the GSEs, CMBS lenders, and lifecos, MHC owners should sometimes be prepared to sign personal guarantees on bank loans. While there are non-recourse lending options through banks, most banks require personal guarantees to lend, particularly at higher leverage. The personal credit of the borrower will be a key component of their underwriting, but this also means they may lend more readily on properties that have not yet stabilized. Furthermore, we expect most banks to continue to focus on properties located in strong infill markets while shying away from tertiary markets. In fact, regional banks are typically not willing to lend on properties located outside of their retail footprint.

One way banks are expected to compete for market share throughout the year is by continuing to offer lower closing costs and more flexible prepayment structures in comparison to the other financing options discussed above.

For MHC owners who are building their portfolios with smaller properties that may not yet qualify for GSE, CMBS, or lifeco financing, bank debt may be the only available financing option. Additionally, for owners looking for value-add opportunities in the MHC space, a bank may be a viable option for obtaining debt through the renovation and repositioning period.

Debt Funds

Commercial real estate debt funds emerged from the Great Recession as many banks and other regulated lending sources were either sidelined due to liquidity shortages or hamstrung in their ability to lend due to regulatory changes imposed upon them following the crisis. A debt fund is an investment pool comprised of private equity in which core holdings are fixed-income investments as opposed to equity investments (stocks). Commercial real estate debt funds view commercial real estate assets and loans in the same way they view an investment in bonds or fixed income assets given the generally predictable and dependable stream of cash flow that is available through real estate investments. Debt funds offer borrowers the opportunity to obtain higher leverage on their loans in exchange for higher rates and additional loan structure.

The number of debt funds in the market today is likely in the thousands so finding one is easy. The hard part is finding one that fits your needs as each debt fund has unique targets with regard to asset type, asset quality, location, loan size, loan terms/pricing, borrower experience/strength, etc. They often compete for larger ($10 million and above) acquisition loans needing a flexible structure and timely certainty of close, but some can also do smaller transactions and provide longer term capital. These lenders are also often utilized for re-positioning properties in anticipation of higher cash flow in the future. The key is engaging someone with some expertise in this arena and with your property type to help you identify the right lending partner for your particular needs.

Debt funds typically have a higher cost of capital than life insurance companies or banks as their money comes from investors with appetites for higher returns who are also willing to accept higher risk by a) relying on the funds' asset management capabilities, b) assuming that the underwritten cash flow will ultimately be in place to support the higher leverage loan, and c) ultimately relying on the support of the underlying asset value should the debt fund be forced for foreclose on a non-performing asset. Since debt funds are unregulated, they can often lend on challenging properties or to borrowers with previous credit issues, such as bankruptcies and foreclosures. As a result, debt funds oftentimes tackle tougher deals at higher interest rates and with more complex loan structures (reserves, liquidity covenants, etc.) to ensure repayment of the debt. More recently, debt funds have been winning their share of high quality loans with strong sponsorship, particularly high leverage acquisitions in low capitalization rate markets. The additional loan proceeds available to investors through debt funds sometimes outweighs the additional cost of capital and improves their projected return on the asset.

Many real estate analysts predicted in recent years that the private lending market would play an increased role in commercial real estate lending, and they were correct. Regulated lenders face additional capital constraints extending these types of riskier loans (which may be a good thing for anyone who remembers the Great Recession), providing a competitive advantage to private capital in this segment of the market. We expect to see debt funds continue to gain market share within the MHC sector given their ability to underwrite to lower debt yields and higher loan dollars in the current compressed cap rate market.

GSE financing for MHCs with tenant pad lease protections

The GSEs' new multifamily lending cap structures announced for 2022 again include a requirement that at least 50% of the GSE's lending volume be mission-driven affordable housing. The GSEs define mission-driven business as loans for multifamily properties that possess certain affordability characteristics that serve families of modest income with the goal of providing safe and affordable housing in the United States. The GSEs generally provide their most competitive interest rates for properties designated as mission business. Under the new cap structure and FHFA guidelines for 2022, MHCs must incorporate eight Tenant Pad Lease Protections ("TPLPs") identified by the FHFA in order to achieve mission-driven affordable housing status. Since the GSEs must deliver 50% of their loan volume as mission-driven business in 2022, both Fannie Mae and Freddie Mac are now requiring implementation of TPLPs as part of their standard MHC lending programs. This is a shift from previous years in which the GSE's offered incentives to MHC borrowers who agreed to implemented TPLPs at their properties, but implementation of TPLPs was not an outright requirement to obtain a GSE loan.

TPLPs were first introduced in 2019 as part of the GSE's 2018-2020 Duty to Serve ("DTS") plan. In response to the disruption and uncertainty caused by COVID-19, the FHFA instructed the GSEs to structure their 2021 DTS activities as a one-year extension of the 2018-2020 Plans. As the TPLP programs rolled out in 2019, the GSEs worked with industry stakeholders to shape and implement the TPLP programs. During this time, Freddie Mac commissioned an extensive survey of all 50 states that identified which TPLPs are already provided to MHC homeowner residents by current state laws, and determined that no state offered all eight tenant protections identified by FHFA in its DTS plan.

In addition to receiving more favorable interest rate pricing as a result of MHCs with TPLPs being defined as mission-driven business, it is worth noting that Fannie Mae continues to offer an additional incentive of up to $10,000 in third party report cost reimbursements for MHC loans with TPLPs. Although Freddie Mac offered this same incentive when its TPLP program was first rolled out, it has ceased offering any third party repost cost reimbursements for MHC loans originated after 2021.

While there are slight differences between the GSEs' TPLP programs, the eight TPLPs are essentially the same and outlined below:

1. One-year renewable lease term
2. 30-day written notice of rent increase
3. Five-day grace period for rent payments
4. Tenant's right to sell the manufactured home without having to first relocate it out of the MHC
5. Tenant's right to sell the manufactured home in place within 45 days (30 days for Freddie Mac) after eviction by the MHC owner
6. Tenant's right to sublease or assign the pad site lease to a new home buyer provided they meet the minimum MHC rules, regulations, and credit quality
7. Tenant's right to post "For Sale" signs
8. Tenant's right to receive at least 60 days' notice of planned sale or closure of the MHC

There are two ways by which MHC owners can implement TPLPs at their properties. The first (and easiest) option is through amending the MHC's rules and regulations when the MHC's standard lease agreements make reference to the MHC's rules and regulations. When utilizing this option, the MHC owner is simply required to amend the MHC's rules and regulations to incorporate all eight TPLPs and then provide each resident a written notification that lists all eight TPLPs. The MHC owner's form of written notification and the updated rules and regulations must also be submitted to the GSE lender.

The second (and more onerous) way to incorporate TPLPs is through new or amended lease agreements, which explicitly list all eight TPLPs. What makes this approach more challenging when compared to amending rules and regulations is that the MHC owner will need to obtain counter-signatures from each of the MHC residents in order to comply with the program.

Whether incorporating TPLPs through amending rules and regulations with notices sent to residents or through new or amended lease agreements, MHC owners will be required to show that all eight TPLPs have been incorporated within 12 months of loan closing. At the time of loan closing, a loan agreement rider is added to the loan documents for both GSEs to memorialize that the lease protections are required to be in place for the life of the loan. After loan closing, borrowers will need to provide a written certification that the protections are in place and a lease audit will also be required.

For Fannie Mae, the penalty for non-compliance is 2% of the original loan amount annualized over the term of the loan as well as returning to Fannie Mae any third party report cost reimbursement. The borrower will be subject to payment of the non-compliance monetary penalty each year the loan remains out of compliance. With Freddie Mac, if the borrower is found to be out of compliance with the TPLP program, the borrower will be entitled to a 30-day cure period each year. If the borrower fails to cure the noncompliance, the loan will be considered in default.

As MHC owners review financing alternatives, it is important to factor in both the pricing benefits and subsequent requirements of TPLPs when considering GSE financing.

Physical and environment due diligence: action steps to avoid problems and delays

Commercial real estate financing requirements typically include the preparation of a Property Condition Assessment (PCA) and a Phase I Environmental Site Assessment (ESA). The purpose of the PCA report is to evaluate the current condition of the subject property improvements as well as provide an estimation of anticipated capital needs over the required evaluation term (typically looking 12 years ahead). The objective of the ESA report is to evaluate the current environmental condition of the subject property through on-site inspection, interviews, review of property and vicinity use history, and contact with regulatory agencies. ASTM International (formerly known as the American Society for Testing and Materials) provides the industry standard scopes for ESA and PCA reports. While life insurance companies, banks, CMBS and GSE lending programs generally adhere to the ASTM base scopes, the GSEs each amend their scopes with several requirements unique to MHCs.

There are a few steps that MHC owners or prospective buyers can take to avoid costly pitfalls, excessive money placed in escrow, and loan closing delays during the financing process. Because MHC owners refinancing properties their properties typically have unobstructed property access during the due diligence process, some of these tasks are easier to complete compared to issues identified during an acquisition transaction when property repairs cannot be made prior to closing and when operational history is not readily available. For the Phase I ESA scope, there is typically less preparation that can be done other than making sure your lender and their consultant receive historical ESA and subsurface investigation reports along with as much information as is known about any potential historical releases on the subject property or adjacent properties to ensure that the information can be reviewed as quickly as possible to avoid delays.

As a starting point, it is recommended that borrowers request from their lender a list of MHC property configuration requirements. As examples, the GSEs typically require two paved parking spaces per pad and that all homes present are professionally skirted with hitches removed or concealed. Because the GSEs have certain standard property requirements for MHCs, it is best to have your lender communicate any property level questions or issues with the GSEs, as well as the PCA/ESA consultant, early in the process in order to avoid surprises or expensive requirements arising after the loan application has been accepted. In some cases, the lender may have to submit a waiver request to the GSE for certain property related characteristics. Such waivers are often approved when the consultant can demonstrate than any non-conforming property characteristics are common in the subject property's market area.

After discussions with the lender, borrowers may want to check with the local building/planning department and fire department to ensure that there are no outstanding code violations related to the property in general or to specific property tenants. Historical environmental issues, if present, may also reveal themselves through such inquiry.

The three property components discussed below are arguably the most common culprits resulting in unexpected capital costs identified in a PCA for an MHC property.

Asphalt and Concrete.

Review of recent PCA reports that Nova has prepared for MHC properties across the country revealed an average of 65%-70% of total capital reserve estimates were attributed to asphalt and concrete drive resealing, repair, and replacement during the evaluation term. Asphalt drives and parking areas exhibiting mild to moderate surface wear will likely only require surface sealcoat application once or twice during a 12-year evaluation term. However, surfaces that show more significant wear, including significant alligator cracking or potholes, may warrant more expensive partial-

depth or full-depth surfacing as an immediate need or early in the reserve term. If there are known immediate needs present at the property, having a written estimate in-hand from a licensed contractor identifying the specific type of repairs recommended and square footage to be repaired may provide a less expensive option when compared to the cost estimate the PCA consultant may otherwise conclude to.

Potable Water Wells and Wastewater Treatment Systems.

While many MHC properties are provided with municipal drinking water and sanitary sewer services, it is not uncommon for MHCs in more suburban or rural locations to provide their own services. For properties with private potable wells or wastewater treatment systems (either septic or active wastewater processing), Fannie Mae and Freddie Mac require detailed information about these systems. Information about the equipment present, water quality (including complete submittals of analytical testing in conformance with water regulatory requirements), verification of professionally-licensed water system servicing, and verification that there are no current requirements to tie into nearby municipal systems are a few of the items that need to be covered in detail in both the PCA and ESA reports. Ensuring that any delinquent water quality testing is performed and any other regulatory anomalies are rectified is of specific importance to the GSEs. Again, lenders can provide borrowers with the checklists needed for a preliminary review of these requirements.

Minor Miscellaneous Deferred Maintenance.

In a refinance situation, it is recommended that property ownership, with their maintenance staff, complete any minor repairs prior to property inspections. If you notice a component damaged to the point that minor routine maintenance by property staff cannot address it, it is recommended that a licensed contractor be retained to either repair the component or provide a written estimate of the repair needed. If a reasonable contractor bid (one prepared by a licensed contractor that provides a quantity and unit cost) is provided to the PCA consultant, it may reduce the quantity of money retained for escrow as well as avoid loan closing delays. For minor carpentry, painting or other miscellaneous damage, instruct property staff to repair such damage prior to the consultant's on-site inspection. Completing this work will avoid the identification of repairs requiring escrowed money and revisions to the PCA and underwriting tasks.

The objective of a proactive approach is to have potential problems identified and resolved well before your anticipated loan closing date. Staying ahead of these issues will help you maximize your loan proceeds, ensure that you qualify for the best available financing terms, and eliminate loan closing delays.

This article was contributed by Greg Murphy, Nova Group, GBC. For more information, please contact: greg.murphy@novagroupgbc.com - (415) 377-2431

Section 2: Financing handbook

A framework for assessing loan alternatives

Because you likely have multiple lending options, it is important to have a clear vision of your investment goals and to formulate a general business plan before moving forward on a loan. After providing a preliminary quote, most lenders issue an application to the borrower. The application includes a summary of terms and underwriting assumptions.

When this application is returned to the lender, it will require a good faith deposit to cover closing costs, such as the cost of third-party reports. Therefore, you should assess your alternatives before selecting a lender and returning its application along with deposit.

This process should include an analysis of the advantages and disadvantages of various loan alternatives and how they match up with your priorities.

When determining investment goals, contemplate the following questions:

- Am I comfortable with personal recourse?
- What do I want to achieve over a five and 10 years horizon? Pay down debt? Borrower additional money based on an increase in value? Sell the property?
- Am I comfortable taking interest-rate risk with an adjustable- rate loan, or would I prefer to lock in a long-term fixed interest rate?

The answers to these questions will help determine what type and structure of loan is appropriate.

Many lenders offer both floating-rate and fixed-rate loan programs. There is usually an inherent trade-off between floating- and fixed-rate programs. While some floating-rate programs offer interest rate caps or are fixed for a period of one to five years, there still exists the risk of an interest-rate increase in the future. The major advantage of floating-rate loans is that they often offer lower starting interest rates than fixed-rate loans, but many lenders add interest rate floors to their floating-rate loans, which diminish this advantage. Typically, floating-rate loans have the advantage of lower prepayment penalties when compared to fixed-rate loans.

Fixed-rate loans lock in an interest rate for a specific period of time, and have been an attractive option in recent years because of favorable treasury rates. Treasury rates, or yields, are the most common benchmark used to determine fixed-term interest rates. Longer-term fixed-rate loans enable an owner or investor to lock in his or her cost of capital for an extended period.

To achieve the lowest fixed rate, however, lenders typically need to structure fixed-rate loans with prepayment penalties that are usually more onerous than the prepayment provisions found on floating-rate loans. Prepayment penalties are, in part, the result of the lender needing to fix or “match fund,” the cost of capital for the entire loan term. While some fixed-rate loan programs offer a defined prepayment penalty, usually as a percentage of principal balance, the lowest fixed rates are usually achieved through a yield maintenance or defeasance type of prepayment penalty.

The actual amount of a yield maintenance penalty is a function of the rate on the loan being paid off and treasury yields at the time the loan is prepaid, as well as the remaining loan term and balance at the time of prepayment. As a general statement, yield maintenance prepayment penalties are minimized if rates have increased since the time the loan was originated and are typically very large when a loan is paid off in the early years of the loan term, especially if rates are the same or lower than they were when the loan was originated. It is important to note that most loans offer an assumption provision, and a

low fixed-rate loan can be attractive to a future buyer, as long as the loan amount is relatively high in proportion to a property's value. Since a fixed-rate loan typically has an open prepayment window near the end of the loan term, many borrowers also match the fixed-loan term to the anticipated holding period for the property.

Another important consideration is selecting the type of loan. CMBS loans usually offer high leverage and attractive rates, but are generally less flexible than portfolio loans. Still, CMBS loans remain an alternative to consider, particularly for properties or borrowers who do not qualify for or want a portfolio or GSE loan. It is also worth noting that CMBS loans, unlike GSEs loans, do not require MHC owners to implement tenant pad lease protections.

In an attempt to avoid the mistakes of the past, CMBS lenders typically require escrows for deferred maintenance and ongoing replacements (and re-tenanting in the case of commercial projects), and may have a "cash management" requirement if debt coverage deteriorates to a defined level. Many full leverage conduit loans require "cash management" from day one as a condition for closing the loan.

A portfolio loan, by definition, is held by a lender on its balance sheet during the loan term. These loans are typically originated by banks, credit unions, and life insurance companies. Conduit loans, by contrast, are intended to be held by a lender for a short period, ideally less than three months, and are then securitized— sold to bond investors. A portfolio, or balance sheet, lender can in concept more readily modify certain aspects of a loan during the term should the need arise. However, there is no guarantee that a lender will agree to modify a loan in the future, and with fixed- rate loans, the lender may not be able to change the prepayment penalty for reasons discussed above.

A common disadvantage of portfolio loans is that the interest rates are sometimes higher, particularly on longer-term fixed-rate structures, and LTVs can be lower because of the use of more conservative underwriting parameters. Additionally, portfolio lenders may have more restrictive requirements related to the borrower's commercial real estate experience, as well as the quality and location of the property. Some portfolio lenders still have a perception of MHCs as "special purpose" real estate and consequently may only lend on them on a conservative basis. Also, many (but not all) portfolio lenders will require a personal guarantee from key principals of the property's ownership group.

Before moving forward with a financing proposal, we recommend comparing your key goals and requirements with the available options. Ask additional questions if unsure of any terms and provisions quoted. MHC owners are fortunate to have multiple financing options and having a framework to assess these alternatives will ensure you are selecting the best option.

Fannie Mae and Freddie Mac: an inside look

The GSE programs are the dominant lending source in the MHC sector and multifamily lending overall, accounting for 50% of all multifamily mortgage debt outstanding in the United States as of the 4th quarter of 2021 according to the Mortgage Bankers Association. From the outset, the GSE programs offered attractive and dependable terms primarily because of the favorable capital and market access available to them. Seeing the success that FNMA experienced in lending to MHCs, Freddie tried to move into the MHC lending arena for several years, ultimately receiving regulatory approval in 2014 to lend on MHCs. Today, both FNMA and Freddie Mac provide attractive financing options to MHC owners.

Because the GSEs have been the preferred financing option for many multifamily borrowers, it is important for MHC owners to be familiar with the background and requirements of each GSE.

Fannie Mae

Initiated in 1988, the FNMA DUS program provides approved lenders the ability to originate and subsequently sell loans on multifamily properties, usually in the form of a mortgage-backed security (MBS). The MBS is purchased by investors at a low yield because the security is guaranteed by FNMA. The loan origination and closing process can be completed by the DUS lender without FNMA's involvement, as long as the collateral and borrowers meet established underwriting and pricing guidelines. MHCs were added as an eligible FNMA property type in 1999 when a pilot lending program was launched.

FNMA currently works with 24 DUS lenders, but only a handful of these lenders originate the bulk of the loans on MHCs.

DUS lenders typically service the loans they originate and retain a risk position through a loss-sharing formula with FNMA. Because of this, lenders can only receive and maintain the DUS designation by demonstrating financial strength, underwriting expertise, loan servicing experience, and capacity to generate and handle meaningful loan origination volume. As mentioned above, a DUS loan can be closed with little to no interaction with FNMA if the established lender guidelines for a given loan transaction are met.

FNMA DUS loans offer an assortment of financing structures. and attractive pricing for both age-restricted and all-age MHCs. Borrowers have the ability to obtain a loan with defined fixed- rate terms between five and 30 years and typically amortized over 30 years with a period of interest-only payments often being available. In addition to fixed-rate terms, FNMA also offers adjustable- rate programs.

If you believe FNMA financing may be a consideration for you, first determine whether your property is eligible based on FNMA's underwriting guidelines. While the entirety of FNMA's guidelines is too extensive to list here, some MHC requirements worth noting are as follows:

- Paved roads and driveways. Off street parking preferred
- Physical occupancy of at least 85% and economic occupancy of at least 80% (lower occupancies will be considered based on history and business plan to increase)
- Professional skirting with home hitches covered/ removed
- Majority of the property, including the entrance, is not located in a moving water flood zone
- Amenity package is not required, but must be common in the marketplace

If a property does not meet all of the guidelines, it does not necessarily preclude the property from qualifying for financing from FNMA, but it does require the DUS lender to obtain a waiver from FNMA. This is achieved by successfully presenting compensating factors.

FNMA loans are nonrecourse with standard recourse carve- outs, usually to the key principals, for actions such as fraud or unauthorized transfer of controlling interests. For lower leverage loans, most of the carveouts do not apply to the key principals. FNMA loans are assumable (multiple times), subject to approval of the new borrower's credit and experience. Secondary or "supplemental" financing, is typically available after the first year of the loan term. Supplemental loans are almost always coterminous with the first mortgage, and the interest rate on the supplemental loan is based on the then-prevailing FNMA rates for supplemental loans.

Freddie Mac (Optigo)

As previously mentioned, Freddie announced its entrance into MHC financing in 2014. Freddie Mac's arrival into the sector materially changed the competitive landscape, resulting in more aggressive overall loan terms for MHCs,

including more relaxed guidelines for MHCs to qualify for GSE financing.

Freddie originates multifamily loans through a network of 21 lenders known as Optigo Lenders. Freddie Mac does not fully delegate any of its processes to its Optigo Lenders, and is more actively involved in the quoting and closing process than FNMA.

Freddie securitizes all of its MHC loans — typically putting approximately 5%-10% MHC loans into each of its securitizations. Freddie provides both fixed- and floating-rate loans with terms usually ranging from five to 10 years, but they can also offer longer-term fixed structures, such as 12- and 15-year terms. Amortization schedules are typically 30 years with interest only periods that may also be available.

In general, Freddie Mac has similar property and MHC requirements as referenced above for Fannie Mae.

Like FNMA, Freddie Mac loans are nonrecourse with standard recourse carveouts usually to the key principals for actions such as fraud or unauthorized transfers of controlling ownership interests. For lower leverage loans, it may be possible to waive the requirement of a carveout guarantor, but this is easier to achieve after a borrower has already closed a loan with Freddie. Freddie loans are assumable and Freddie also offers a secondary, or "supplemental," financing program.

One notable differentiation from FNMA is that Freddie offers an "index lock" to qualified borrowers shortly after execution of a loan application designed to eliminate the volatility of the interest rate by locking in the treasury index. In order to take advantage of this option, the borrower is required to provide a 2% index lock deposit, which is refundable at loan closing. After index lock and before closing, the loan amount can move 5% up or down without any unwinding cost. Unlike CMBS loans, there are no margin calls if rates decline and the hedge moves into a loss position. Check the specific index lock agreement document, but typically the worst-case scenario when a loan is rate- locked and does not close is that the maximum liquid damages the borrower will suffer in the Freddie program are limited to the 2% deposit.

Even if you do not borrow from Freddie or FNMA, their lending on MHCs has provided more lending alternatives for borrowers and increased competition among lenders. The result has been better financing terms for MHC owners on a wider range of properties throughout the country.

Preparing your property and information for financing

It is strongly recommended to start the financing process early in case unexpected delays occur. Before contacting a lender, the first step is to assess and prepare the property, your financial information, and your personal information to be submitted for financing. This review should take into account the physical condition of your property, the state of financial records, and market competitiveness of your community. In addition, you should prepare documents that will be needed to underwrite the loan and consider the manner in which information should be presented.

Take a step back and assess the overall asset quality, or curb appeal, of your community. Is the landscaping adequate and well maintained? Are the entrance and signage welcoming? Remember, these are your property's "front doors." Do the homes reflect pride of ownership, and are community regulations being enforced? Is the skirting surrounding the homes intact and in good shape? Is the average age of the homes, density of the community, and amenities in line with competitive properties in the local housing market? If not, be prepared to explain how you compete for residents and plan to sustain occupancy and rental rates going forward. These are all questions a lender will consider when screening a property.

Have a good handle on market conditions and be prepared to identify and comment on the competitive set of properties. Are rents at market when compared to nearby manufactured home communities? What is the general demographic profile of the local housing market, and how does the property successfully compete for new residents?

After assessing the condition of the property and its market, it is likely that there will be some shortcomings. At the very least, have a plan for mitigating potential concerns, particularly if financing an acquisition. For example, perhaps the community being purchased has older homes. The business plan may be to replace or renovate these homes over time. Make the lender aware of your long-term plan, and describe how it will be implemented. If you have been successful completing similar improvements in a community you currently own, draw the lender's attention to that and provide details.

The next step is to evaluate the financial condition of the property, which includes a review of your financial records. Typically, a lender will ask for a current rent roll along with property operating statements (income and expenses) for the past three years, as well as the most recent 12-month period, ideally broken out by month (commonly referred to as a trailing 12-month statement or "T12"). When examining the rent roll, the lender will likely look for rental, lender-owned, or investor- owned homes in the community. While some property owners may be motivated to rent out homes to residents, from the perspective of most lenders, the fewer rental homes, the better. In most cases, lenders will not want to take homes as collateral; therefore they will discount additional rental income derived from rental homes and underwrite rental income solely based on the site rent. A correctly structured rent-to-own program is more palatable to lenders than a rental without a path to resident ownership. Since lenders are generally unable to capture rental home income in their underwriting of net operating income (NOI), it is also best practice to identify or remove rental home data, both income and expenses, on the property's operating statements.

Monthly rent collection figures on the trailing 12-month statement will be a key focus. The trend of rental income reflected on the trailing 12-month operating statement has a major effect on a lender's desire to make a loan and the determination of the loan terms. Lenders will want to see rent collections be stable and/or trending upward from month to month. This is especially the case when a recent rent increase has been implemented to verify not only that the higher rent is being collected, but also that it has not caused any residents to move out.

In addition to the income stream from the site rents, lenders will examine the collection history of other income items. It is important that other income items are segregated on the historical statements, meaning separate line items for utility reimbursements, laundry facilities, late fees, and so on, should be detailed. A loan underwriter will try to determine whether these other incomes are sustainable through the foreseeable future. Typically, as long as a good history of collecting ancillary income is demonstrated, lenders will likely include this income in their underwriting.

In the evaluation of the property's historical income and expense statements, identify any large fluctuations in the numbers on either the income or expense side. For example, if there has been a significant increase in annual rental income in recent years, be able to explain why. Did the property experience a high vacancy rate during a prior year and, if so, why? What has been the history of rent increases, and are rents competitive and in line with the market? You should conduct the same kind of analysis and explanation on the expense side, particularly with respect to expenses that may be unique to your ownership operations. If home office overhead is allocated to the property in lieu of a management fee, be sure to identify that expense,

perhaps with a footnote, as a lender will automatically input a management fee even if one is not charged.

While it is common for property owners to expense (for tax purposes) as many items as possible on their operating statements, it benefits the property owner to identify and explain any expenses that are not directly related to the property's ongoing operation. An underwriter only needs to include expenses that the lender would incur if operating the property; therefore, you should provide an itemized breakdown of any capital or nonrecurring expense items that are embedded within the operating statements, such as paving or clubhouse improvements, whenever possible. If identified, the lender can remove these expenditures from the underwritten expenses because it will already be including a replacement reserve deduction for long-term improvements. The goal is to maximize the underwritten net operating income because this will typically translate into higher loan proceeds or a lower interest rate on the loan.

Many lenders will ask to review or audit at least a sample of leases to compare with the rent roll for accuracy. We have encountered operators who do not maintain written leases and if that is the case with your property, we recommend discussing this with the lender early in the underwriting process. Various states around the country allow for oral or unwritten lease structures for residents at MHC's. For example, Florida allows for a prospectus structure whereby the tenant is issued an unsigned agreement laying out the lease terms and community rules and regulations.

Many times these rules and regulations are posted at the clubhouse or office. The State of Michigan allows a tenant to opt out of a written lease, extinguishing the power of the written contract. That said, a MHC with oral/unwritten leases will have to meet any specific requirements a lender may have related to this. At a minimum they will want to confirm that oral leases are legal and binding under the laws of the applicable state.

After providing the necessary information on the property, provide a general overview or biography of yourself. What is your background and real estate experience, and how many other properties do you own? (If you utilize a third party management company to manage your property, provide a resume for that provides background such as how long they have been in business and how many properties they manage within and outside your property's submarket).

What is your financial strength in terms of net worth and liquidity? In general, most lenders want to see that the property owners have a combined net worth equal to or greater than the proposed loan amount and liquidity equal to 10% of that amount. This is not a hard and fast rule, particularly for larger loans more than $10 million, but if you meet these criteria, you are likely to have fewer questions asked about your creditworthiness.

Provide a business plan for the asset being financed. The lender will look at you not only as a borrower but also as a business partner, so outline your plan for operating the asset and demonstrate why the lender should do business with you. The manner in which you present information is an important factor that loan underwriters consider. Computerized and detailed accounting records are always the preference as this presents the borrower as an experienced, professional owner and manager.

Your rent roll should be detailed and accurate, arranged by unit number, no more than one month old, and should have totals and a summary at the end. You will also need to provide a history and current record of any rent delinquencies. It is also helpful to provide recent, good-quality color photos of the property. Loan underwriters prefer to receive information, including property photos, electronically via email. Providing property operating statements in excel format (as opposed to PDF) will help expedite the loan quoting and underwriting process.

By being prepared in advance you will be able to respond to any unexpected needs for financing while at the same

time ensuring you are obtaining the best terms available. By providing accurate and detailed information up front, you will facilitate a much smoother loan approval and closing process.

MHCs and flood zones

Do you know if your MHC is located within a high-risk flood zone, either entirely or partially, as defined by the Federal Emergency Management Agency (FEMA)? If it is, additional investigation will be needed before you proceed with a loan application. There was a time when FNMA was one of the few lenders that viewed flood zones negatively, but over the years we have seen many others, including Freddie and conduit lenders, follow suit.

Flood zones are geographic areas that FEMA has defined according to varying levels of flood risk. Any property located in an “A” or “V” zone — often referred to as a 100-year flood zone, or high-risk flood zone — can be viewed negatively by lenders, unless only a small number of sites are affected. It can also be problematic if the property entrance is in the flood zone as this could potentially hamper ingress to and egress from the property. To check your property’s flood zone, go to https://msc. fema.gov/portal/home.

So, how does an MHC owner overcome flood zone concerns? Let us assume that only a portion of the sites within an MHC are located within a high-risk flood zone. In this case, most lenders will provide financing, but may make an underwriting adjustment to account for the sites located within the flood zone by not underwriting any income from those sites. However, the underlying source of the flood zone and the elevation of the homes compared to the flood zone elevation level may enable the lender to include all of the sites and related income in the underwriting.

The cause for biggest concern is when the source of flooding is a moving body of water, such as a river or creek. In this instance, there is potential for a heavy storm to strengthen a normally docile creek to the point of being capable of displacing homes located within the flood zone. For this reason, many lenders require that any sites in the flood zone be removed from the underwritten rental income when the source of flooding is a moving body of water. If a moving body of water is not the source of flooding, however, the threat of damage to the homes is not as high and it may be possible to underwrite rental income from the sites located within the flood zone.

When a property is in a flood zone because of its location in a low-elevation area or being adjacent to a water-retention area, such as a pond, heavy rains may cause the water level to rise and result in flooding, but the water then recedes over time. This is a scenario in which you should consider the elevation of the homes, and you may need to hire a surveyor to provide a more detailed analysis. In addition to verifying exactly how many sites are located within the flood zone, a surveyor can determine the elevation levels of the floors of the homes located on those sites relative to the base flood elevation (BFE) level. If the surveyor’s findings show that the elevation levels of the floors of the homes are above the BFE of the flood zone, a lender may agree to underwrite the rental income from those sites as there would be adequate data showing that any flooding should not displace the homes within the community.

Another alternative is to ask an experienced surveyor to determine if your property is a good candidate for a Letter of Map Amendment (LOMA) or Letter of Map

Revision (LOMR.) If it is, upon completion of field work, the surveyor can submit a LOMA or LOMR application to FEMA. FEMA will review the application and, assuming it has been completed appropriately, issue an amendment or revision to the current FEMA map in which it removes all or a portion of your property from the high-risk flood zone designation.

Property owners often wonder why simply obtaining the required flood insurance through the National Flood Insurance Program (NFIP) does not alleviate a lender's concern about an MHC being located in a high-risk flood zone. This is because NFIP coverage can only be purchased for structures and improvements permanently affixed to the ground. Residents can obtain flood insurance for their homes, but the community owner is not a party to this coverage. MHCs have limited physical improvements, and the primary improvements to insure are structures such as a clubhouse or laundry facilities, which do not generate income. In fact, as part of the appraisal required when processing a loan, the appraiser provides an insurable replacement cost value that pertains only to the physical improvements at the property, and this is used to determine the appropriate property insurance coverage required for the improvements. There is usually a significant gap between the final appraised value of an MHC and the replacement cost value of the physical improvements.

So, even if an MHC owner obtains flood insurance on the permanent structures, it is likely going to fall far short of covering the loan amount.

One solution that Freddie offers to MHCs located within flood zones is for the property owner to purchase additional business interruption coverage to specifically cover rent losses due to flooding for those sites located within the flood zone.

You should be aware of the additional insurance premium cost to obtain such coverage as it may affect what loan amount can be achieved because the lender will need to underwrite the insurance expense at the higher premium level, therefore reducing the NOI used in the minimum debt service ratio calculation. In fact, in order to underwrite rental income from sites located in a flood zone, Fannie Mae requires business interruption coverage for flood in addition to evidence that the floors of the manufactured homes are above the BFE.

Manufactured homes: quick facts and stats

There are many reasons people consider purchasing a mobile home, and savings is typically one of them. However, calculating the cost of owning a mobile home isn't as simple as looking up a price tag from a manufacturer. Sophisticated styles, customizations, location popularity, community amenities—among other things—are all factors that affect the overall investment of purchasing a mobile home.

This section is designed to help community owners learn about the many different factors that go into the cost of a manufactured home. By taking a close look at each variable and examining how it affects overall pricing, owners will gain a better understanding of what to expect when a quality home is purchased. From square footage to home features to important extras like taxes and utilities, these are the costs that a home buyer takes into consideration when they commence their hunt for the perfect mobile home.

Factors That Affect Mobile Home Cost

If you've ever wondered how much mobile homes cost, keep in mind there are many different factors that affect the price tag. When researching homes, pay attention to how the following can lead to differences in cost.

- Average Prices
- Transportation & Installation
- Location & Timing
- Land & Community
- Home Expenses

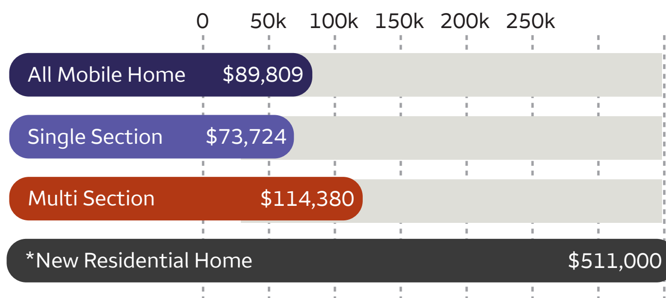
Average Prices:

Square footage is one of the biggest factors in determining the cost of a manufactured or mobile home. More square footage means more room for a family, possessions, and lifestyle.

Mobile homes fall into one of three size categories. Single wide mobile homes are built and delivered as a single unit, while double wide mobile homes are built and delivered in sections that are joined together at the home site. Multi-section manufactured homes are triple wide or quadruple wide models that add more sections and more square footage. Exact dimensions and floor plans of each of these types can vary considerably, depending on the manufacturer, but most options fall within typical ranges. Although mobile home prices fluctuate just like site-built homes do, below are the average prices of each home type (plus its square footage and per-square-foot cost) from our latest data.

Average Price of a New Home in the USA

According to MHVillage's latest 2021 data



***New Residential Home data comes from the U.S. Census Bureau**

Compared to the cost of standard home, even the most expensive mobile homes are considered a bargain for most owners.

Data courtesy of *MHVillage*

A single wide mobile home (or single-section) is generally what people first picture when they think of what typically sits in a mobile home park.

- Average Sales Price: $73,724
- Average Price Per Square Foot: $76.57
- Floor plans typically include one to two bedrooms and one to two bathrooms

Double Wide / Multi-Section Prices

A double wide mobile home (or multi-section) combines the dimensions of two or more single section units to create a much larger living space. You might commonly refer to these varieties of mobile homes as double-wide or triple-wide trailers.

- Average Sales Price: $114,380
- Average Square Footage: 1,296
- Average Price Per Square Foot: $88.27
- Floor plans typically include two to three bedrooms and two bathrooms

When searching through options for buying mobile homes, home sizing varieties can also include tiny homes, which are typically less than 400 square feet, and large multi-section homes, which are more than 1,800 square feet and contain three or more bedrooms with two or more bathrooms.

A new tiny home will typically be more affordable than a

single-unit home, and a large multi-section home will most likely be at the high end of the price range. As with most investments, a new construction purchased directly from the manufacturer will typically be more expensive up-front than a unit of the same size sold by a previous owner.

Below is a summary of statistics provided by MHVillage:

2021 National Average New Home Selling Price	2021 National Average Pre-Owned Home Selling Price
$89,809	$61,085
▲ 6.39%	▲ 25.9%

Top 5 Markets with Average New Home Listing Price Growth Above National Average

	Growth	Above Average
Tampa-St. Petersburg-Clearwater FL MSA	25.6%	19.2%
Minneapolis-St. Paul MN-WI MSA	24.8%	18.4%
Dallas-Fort Worth TX MSA	20.5%	13.7%
Oklahoma City OK MSA	17.6%	11.2%
Las Vegas NV-AZ MSA	13.1%	6.7%

Top 5 Markets with Average Pre-Owned Home Listing Price Growth Above National Average

	Growth	Above Average
Philadelphia-Wilmington-Atlantic City	53.2%	27.2%
Indianapolis IN MSA	42.7%	16.7%
Phoenix-Mesa AZ MSA	28.4%	2.4%
Kalamazoo-Battle Creek MI MSA	27.3%	1.3%
Wichita KS MSA	27.3%	1.3%

Source: *MHVillage*, Full Year 2021

Transportation and Installation Costs:

While the average prices of different mobile home types typically include the cost of delivery and installation, not all dealers will include these expenses in the base price.

The cost of transporting a mobile home from the manufacturer and installing it will likely vary based on:

- How far it needs to travel
- The cost of following installation standards
- Any potential set-up fees or services
- Moving insurance if applicable
- Skirting the home, either DIY or using a professional

A new manufactured home will need to be delivered to the home site from the factory. Typically, manufacturers include delivery costs in the price of the home, up to a distance of around 100 miles, with additional fees averaging $6 to $15 per mile after that. However, the homebuyer may be liable for additional costs, such as the cost of obtaining a permit to move the home.

Make sure to check with the home builder about what to expect to pay for, potentially including labor costs to set and install the home. States normally have specific laws surrounding the installation process to ensure safety and consistency, and owners might opt to hire a professional with experience in navigating the regulations.

Location and Timing:

The mobile home market is similar to the overall housing market, in that certain areas are generally pricier than others. According to MHVillage data, in 2021 the average price of a new manufactured home varied greatly by region, with homes sold in the west being the most expensive, followed by those sold in the northeast, then the south, and, finally, the Midwest. In 2021, the average mobile home price in the west was about $117,000—nearly $36,000 more than the average price of a mobile home in the Midwest.

(This data includes mobile homes with more than two sections.)

Just as it's less expensive to buy a home or rent an apartment in the winter, the average cost of a mobile home tends to be cheaper during the colder months. Sales tend to spike in the spring and summer months: People are generally more likely to be out and about searching for a home when the weather is nice, which makes competition (and prices) higher.

Land and Community Costs:

When purchasing a mobile home, a resident has paid for the physical structure and, sometimes, covered the cost of moving and installation, but what isn't included in this price is the cost of renting or owning the land on which it will be placed.

Similar to purchasing land, rental prices will vary based on region, size, and features. While some no-frills parks rent just the land, other mobile home communities sometimes include a variety of additional amenities that are designed to enhance the homeowners' experience and create a sense of belonging.

Some features that could affect lot rental price include:

- Community pool and/or clubhouse
- Gardens or community park
- Age-restricted communities (for example, a retirement community)
- Having a pet
- Grounds maintenance
- Accessibility to a city center with entertainment or shopping
- More exclusive mobile home communities with luxury amenities and offerings will generally command a higher rental price than those with more baseline offerings.

Below is a summary of statistics provided by Datacomp/JLT (March 2021 – February 2022):

Manufactured Home Community Rent and Occupancy

JLT Market Report National Averages (March 2021-February 2022)

Site Rent

$596
Monthly Average

All Ages: $573
Ages 55+: $643

Annual Site Rent Increase
4.2%

All Ages: 4.4%
Ages 55+: 3.9%

Markets with Highest Rent

All Ages
Orange County, CA........$1,642
Santa Clara County, CA........$1,557
Ventura County, CA........$1,306

55+
Santa Cruz County, CA........$2,417
Santa Clara, CA........$1,309
Orange County, CA........$1,220

Markets With Lowest Rent

All Ages
Savannah, Georgia MSA........$197
Lynchburg, VA MSA........$250
Hendry/Okeechobee Counties, FL........$251

55+
Lynchburg, Virginia MSA........$197
Gary/Michigan City, Indiana MSA. $201
Cincinnati MSA, Ohio........$254

Occupancy Rate

94%
Monthly Average

All Ages: 93%
Ages 55+: 97%

Annual Occupancy Increase
0.7%

All Ages: 0.8%
Ages 55+: 0.4%

Markets with Highest Occupancy

All Ages
Santa Clara County, CA........100% (+.1%)
Denver/Aurora/Boulder........100% (+.8%)
Orange County, CA........100% (.2%)

55+
San Diego County, CA........100% (+0.2%)
Orange County, CA........100% (-.8%)
Santa Barbara, CA........100% (+.2%)

Markets with Lowest Occupancy

All Ages
Genesee County, MI........71% (+2%)
Bay/Midland/Saginaw, MI........77% (+3%)
Lee County, FL........71% (+3%)

55+
Monroe County, MI........76% (+13%)
Bay/Midland/Saginaw, MI........79% (+1.6%)
Northern Michigan........77% (+2.5%)

Markets with Greatest Increase in Occupancy

All Ages
Manatee County, Florida........14.0%
Genesee County, Michigan........11.1%
Berrien County, Michigan........4.7%

55+
Monroe County, Michigan........13.2%
Greenville, South Carolina........7.5%
Gary/Michigan City, Indiana........4.7%

Data courtesy of DataComp®.

Home Expenses:

Utilities

If renting within a mobile home community, not all rent prices include the cost of utilities. Additional expenses to consider include not just the cost of installation and setup of the following, but also the ongoing costs of their upkeep:

- Water, heat, and gas
- Sewage, garbage pickup, and general maintenance
- Television, electricity, cable, and phone service
- Taxes:

Manufactured homes are taxed at the state and local level, so tax obligations vary widely. The type of taxes paid on a manufactured home will be determined by whether the home is titled as real estate or as personal property.

Manufactured homes attached to a permanent foundation and titled as real estate are usually taxed at the same rate as site-built homes in the same tax jurisdiction. The national average property tax rate is 1.15 percent of appraised home value, but some states have significantly higher or lower rates.

If the manufactured home is titled as personal property, a home owner will usually pay annual taxes on it to the state's DMV, much as one would with a vehicle. Some states, such as Michigan, don't require any annual tax for manufactured homes titled as personal property. Instead, many of these states will levy a sales tax at the time the manufactured home is purchased. If buying a manufactured home in one of these states, the builder will be able to inform the buyer of the tax obligations.

Repairs, Additions & Upgrades:

When a manufactured home buyer takes into account all of the aforementioned costs associated with buying and owning a mobile home, they will also need to keep in mind any additional expenses that may arise from potential repairs, renovations, and upgrades to the home, such as: Skirting, Replacing Windows, Flooring, Plumbing, etc.

Why People Choose Mobile Homes

So, why would someone choose to buy a mobile home over a traditional home? Here are some of the most common reasons why people opt for mobile homes:

- They're Less Expensive: Although pricing of mobile homes varies based on many different factors, they are still generally less expensive than traditional homes. For those who cannot or do not want to take on the significantly higher mortgage of a traditional home, a mobile home might be a better option.
- They Make Home Ownership More Accessible: Some people view renting as "throwing away" money month after month. Investing in a mobile home allows a buyer to put money toward a valuable asset.
- They Generally Need Less Maintenance: Since mobile homes are built under controlled conditions in adherence to federal standards, the quality is highly consistent, which means the homes are less likely to develop surprise maintenance issues down the road.
- They're Customizable: Mobile homes have gotten quite sophisticated in recent years, and they can be customized by floor plan, style, material, finish, and more.
- They're Quicker to Build: While a traditional home can take six months or more to build, turnaround time on a new mobile home construction can be as little as a couple of weeks. For those looking for a new home, fast, this is a great option.
- They're "Mobile": Mobile homes can be permanent or semi-permanent residences. While it's generally recommended that mobile homes stay where they are once they've been installed, if a person really wanted to move somewhere, but not go through the process of selling the home they love, they could technically bring it along with them.

This article was contributed by Darren Krolewski and Patrick Revere from Datacomp / MHVillage. For more information, please contact: darren@datacompusa.com – (877)-853-0298 or patrick@datacompusa.com - (616) 888-6994

Captive home finance programs

For many years, some MHC owners have been offering financing options for resident-owned homes within their communities, typically to facilitate the sale of inventory homes. While not all owners actively engage in captive home finance programs ("in-community" chattel financing), many owners find it advantageous to incorporate home financing activities into their core operations. This is especially true in a community with vacancy.

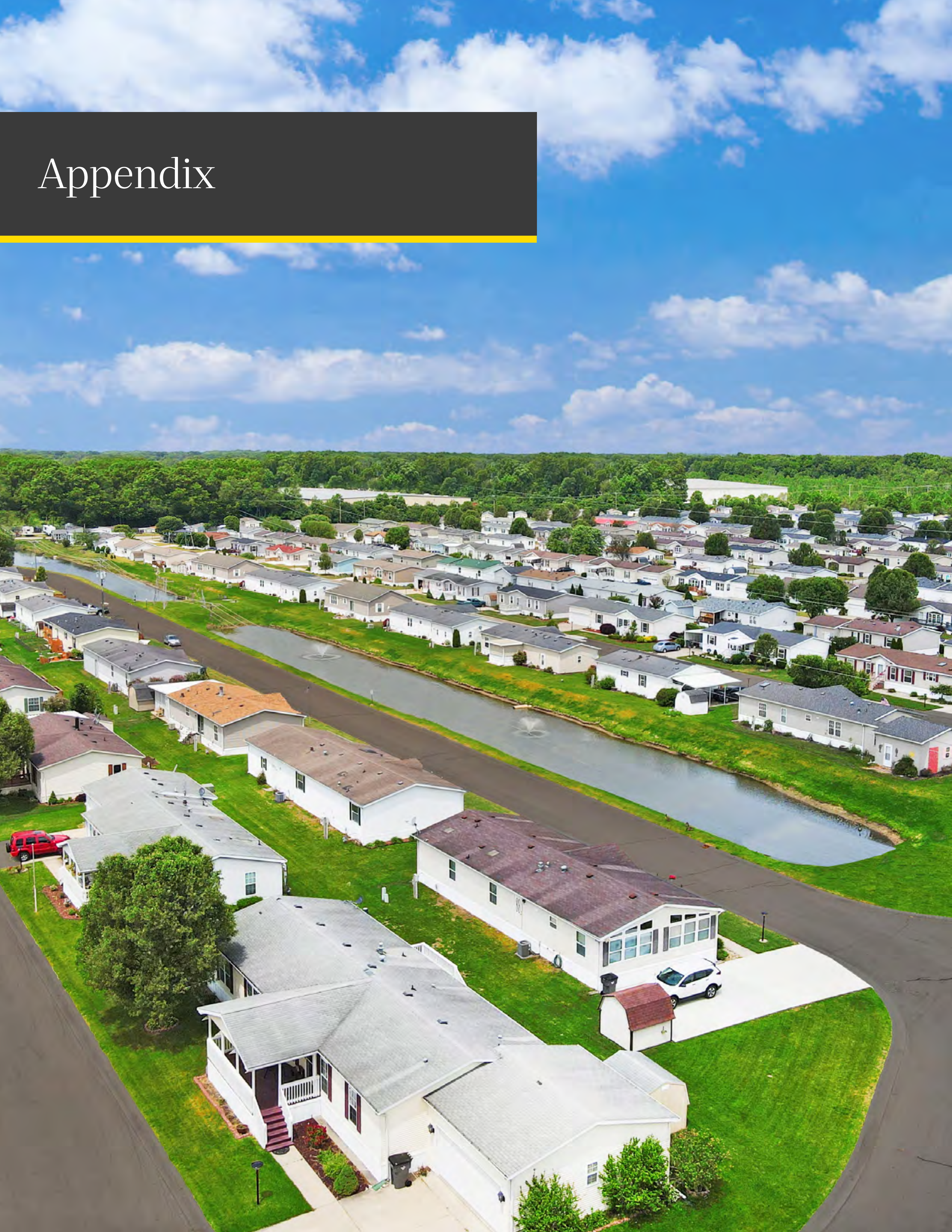
Notwithstanding increased legislative and regulatory complexity and the capital requirement, captive finance programs are likely to remain for the foreseeable future because:

- There are an insufficient number of potential residents in many markets who can pay cash for a home or qualify for affordable third-party financing to fill vacancies that occur naturally, particularly if there are a material number of vacancies to fill.
- Even age-restricted communities that are historically less affected by limited availability of chattel financing are finding that there can be fewer potential residents who can pay all cash for higher priced homes or qualify for traditional financing.
- The MHC industry is consolidating and the acquisition of new communities has become increasingly competitive. Entities seeking to acquire existing properties may have to purchase properties with above average vacancy. A captive finance platform can be key to the successful lease up of an asset.
- Captive home finance programs can also supports home price stability.

Done properly, captive home finance programs can produce positive results, such as:

1. Maintain or increase occupancy by extending credit to a wider spectrum of qualified borrowers.
2. Produce consistent site rent with the ability to implement periodic rent increases.
3. Facilitate the repositioning of a property for future sale.
4. Upgrade housing stock by replacing older homes with newer, energy-efficient homes.

Most of our clients report favorable returns from their finance portfolios, but it is capital intensive and an additional capital raise is therefore included by some as part of the business plan when purchasing a property. The secondary market for home loan portfolios is improving particularly for seasoned portfolios or structures where the community operator maintains a capital position in the loan portfolio.



Appendix

32nd Annual Allen Report (2021)									
2020 Rank	2021 Rank	2021 Rank Calculation #Sites	Entity	Entity State	2021 # States Operating	2021 # Comm. Owned	2021 # Comm. Manage	2021 # Sites Owned	2021 # Sites Manage
1	1	156,081	ELS, Inc.*	IL	33	413	0	156,081	0
2	2	142,832	Sun Communities	MI	34	426	0	142,832	0
3	3	67,063	RHP Properties	MI	27	264	4	65,874	1,189
4	4	56,000	Yes! Communities	CO	18	215	0	56,000	0
5	5	33,740	Hometown America	IL	NA	115	0	33,740	0
6	6	23,200	UMH Properties	NJ	9	123	0	23,200	0
7	7	21,986	Impact Communities	CO	28	18	2	21,853	133
9	8	20,210	Lautrec Ltd.	MI	10	53	0	20,210	0
10	9	19,604	Newport Pacific	CA	12	4	125	399	19,205
11	10	18,500	Kingsley Management	UT	13	58	0	18,500	0
12	11	17,859	ROC USA	NH	18	262	0	17,859	0
13	12	16,706	Bessire & Cassenhiser	CA	3	9	77	1,668	15,038
15	13	15,623	J&H Asset Management	CA	4	6	136	1,000	14,623
62	14	14,325	Stonetown Capital	CO	8	100	3	14,000	325
14	15	14,314	Investment Property Group	CA	8	105	0	14,314	0
18	16	13,000	Horizon Land Co.	MD	12	75	75	13,000	0
16	17	12,221	Riverstone	MI	14	77	0	12,221	0
19	18	12,047	Zeman MHC	IL	10	49	0	12,047	0
17	19	10,599	Inspire Communities	CA	14	44	0	10,599	0
27	20	10,197	Cove Communities	AZ	6	24	0	10,197	0
21	21	8,933	Continental Communities	IL	0	29	0	8,933	0

32nd Annual Allen Report (2021)									
2020 Rank	2021 Rank	2021 Rank Calculation #Sites	Entity	Entity State	2021 # States Operating	2021 # Comm. Owned	2021 # Comm. Manage	2021 # Sites Owned	2021 # Sites Manage
24	22	8,652	Newby Management	FL	2	0	47	0	8,652
22	23	8,255	Flagship Communities	KY	0	45	0	8,255	0
23	24	7,750	Nodel Parks	MI	9	33	0	7,750	0
26	25	7,608	Garden Homes Management	CT	6	102	102	7,608	0
39	26	7,300	Windward Communities	IL	6	18	0	7,300	0
28	27	7,202	Murex Properties	FL	0	0	0	7,202	0
88	28	6,850	MHPI / Mfd. Housing Prop. Inc.	NC	5	27	3	5,750	1,100
54	29	6,697	Cobblestone Real Estate	IL	4	11	14	1,736	4,961
37	30	6,300	Four Leaf Properties	IL	4	12	14	3,500	2,800
29	31	6,200	Ascentia Real Estate	CO	7	40	0	6,200	0
33	32	6,110	Affordable Community Group	NC	9	37	0	6,110	0
30	33	6,045	Richard Kellam & Assoc. / ARCAP	TX	10	17	0	6,045	0
31	34	5,900	KDM Development Corp.	NY	10	35	0	5,900	0
36	35	5,165	Killam Properties, Inc.*	CN	4	35	0	5,165	0
41	36	5,143	Ravinna Communities	IL	9	18	0	5,143	0
45	37	4,922	Saddleback Valley	CO	8	43	0	4,922	0
38	38	4,848	Millennium Housing	CA	1	20	0	4,848	0
34	39	4,500	STAR Management	CA	6	40	0	4,500	0
56	40	4,309	MHC Capital	CA	5	28	0	4,309	0
40	41	4,236	Heritage Financial	IN	3	29	29	4,236	0
42	42	4,137	Creekside Communities	MI	3	21	0	4,137	0

* Did not report 2020 portfolio size, so used 2019 data.

32nd Annual Allen Report (2021)									
2020 Rank	2021 Rank	2021 Rank Calculation #Sites	Entity	Entity State	2021 # States Operating	2021 # Comm. Owned	2021 # Comm. Manage	2021 # Sites Owned	2021 # Sites Manage
59	43	4,125	Tread Co. / MHC Holdings	VA	8	24	0	4,125	0
46	44	3,929	Northwestern Mutual Ins. Co.	FL	2	10	0	3,929	0
43	45	3,907	Keystone Communities*	CN	3	24	0	3,907	0
44	46	3,861	Blair Group	FL	1	5	0	3,861	0
47	47	3,760	West Coast MHP	CA	6	72	0	3,760	0
N/A	48	3,500	Bradenburg, Staedler & Moore	CA	1	14	0	3,500	0
49	49	3,500	Evergreen Communities	CA	8	21	21	3,500	0
57	50	3,326	Monolith Properties	CA	0	7	28	590	2,736
50	51	3,200	Parkbridge Investment Group, Inc.	MI	4	32	0	3,200	0
58	52	3,095	The Choice Group	MI	3	13	0	3,095	0
52	53	3,020	Chesapeake Homes	MD	3	11	0	3,020	0
53	54	2,945	Santefort Real Estate	IL	2	11	0	2,945	0
74	55	2,898	Lamb Inv. / Park Asst. Mgmt.	TX	3	27	0	2,898	0
55	56	2,723	Pleasant Valley Properties	WI	4	42	2	2,664	59
51	57	2,710	Follett USA	CA	6	13	13	2,710	0
N/A	58	2,500	Pioneer Communities	IL	0	14	0	2,500	0
60	59	2,476	F.R. Communities*	CO	5	12	0	2,476	0
61	60	2,450	ALS Properties	MN	3	12	0	2,450	0
63	61	2,119	American MH	IL	4	15	0	2,119	0
64	62	2,053	Ashwood Communities*	WI	14	14	0	2,053	0
65	63	2,012	Park Street Partners*	CA	11	21	0	2,012	0

32nd Annual Allen Report (2021)									
2020 Rank	2021 Rank	2021 Rank Calculation #Sites	Entity	Entity State	2021 # States Operating	2021 # Comm. Owned	2021 # Comm. Manage	2021 # Sites Owned	2021 # Sites Manage
N/A	64	2,000	Casa Feliz	MI	5	14	0	2,000	0
66	65	2,000	UNIPROP	MI	3	3	0	2,000	0
67	66	1,965	NTH Properties	AZ	1	0	24	0	1,965
68	67	1,911	Harshaw Asset Management	TX	2	8	8	1,911	0
70	68	1,898	Hauck Homes	IL	3	12	1	1,865	33
77	69	1,700	Parkway Communities	TX	7	19	0	1,700	0
69	70	1,589	Heiler Communities	FL	2	7	7	1,589	0
71	71	1,500	Cohron’s Realty	IN	1	8	0	1,500	0
73	72	1,332	State Street Group	MS	4	6	2	899	433
75	73	1,213	Park Management Specialists	OH	2	8	0	1,213	0
79	74	1,047	Hames Homes	IA	1	3	3	1,047	0
80	75	1,000	Affordable Family Rentals*	FL	1	5	0	1,000	0
81	76	937	Community Management Group	MI	3	6	0	937	0
78	77	928	Augusta Communities	CA	1	6	0	928	0
84	78	887	Enterprise Estates*	MI	2	6	0	887	0
97	79	882	Archimedes Group	SC	3	11	10	488	394
N/A	80	809	German Management	MI	1	2	0	809	0
92	81	760	Cowan Enterprises	CO	1	547	0	760	0
86	82	741	Wellington Community Estates	NC	1	6	0	741	0
89	83	697	Missouri Modular / MMPC*	MO	1	6	0	697	0
91	84	652	Great Value Homes	WI	1	9	9	652	0

Source: George Allen, 32nd Annual Allen Report

Manufactured home community questionnaire

Property name: ____________________

Property address: ____________________

Prepared by: ____________________ Date: _________

Year built: _________ Number of sites: _________ Number of RV sites: _________

Resident profile: _________ % Family _________ % Adult (Age restricted? Yes / No)

Number of park-owned rental homes: _________ Acreage: _________

Physical occupancy: _________ % Current _________ % Previous Year ____________________

Is any of the property on a ground lease or subject to rent control? Yes / No

Approximate number or percentage of multi section homes in place: _________

Approximate number or percentage of sites that can accommodate multi section homes: _________

Is there a scheduled rent increase? Yes / No If yes, how much: ____________________

When does the rent increase go into effect: Lease anniversary / specific date? ______

Please list the property amenities: ____________________

____

Please summarize any recent capital improvements to the property (within 3 years): ____________________

____

Public utilities? Yes / No If no, please explain: ____________________

Management company: ____________________ Self-managed: ____________________

How many cars can park off the street at each home? ____________________

Is any portion of the property in a 100-year flood zone? Yes / No Number of sites: ____________________

Borrower:

Is the property transaction an acquisition or refinance: Acquisition / Refinance

If acquisition, who is the seller: ____________________

What is the purchase price: ____________ What is the estimated closing date: ________

If refinance, what is the estimated unpaid balance: ____________

When is the maturity date: ____________ Who holds the current debt: ________

If there is a prepayment penalty, when does it expire: ____________

How long has the property been under current ownership: ____________________

Name of borrowing entity: ____________ /TBD

Type of entity: LLC / Individual / Other Is this a single-asset entity: Yes / No

Who will sign the nonrecourse carveouts: ____________

Do they have any negative credit information (i.e., nonpayment, foreclosure, etc.): Yes / No

Does the borrower hold any other loans with Fannie Mae or Freddie Mac: Yes / No

Document checklist

Please provide the following items in order for us to provide you with a loan quote:

1. A current rent roll, in Excel format if possible.
2. The past three years of historical income and expense statements, including a recent trailing 12-month statement showing individual months of operation, in Excel format if possible.
3. Brief description of multifamily real estate experience, personal financial statement of the main principals, and schedule of real estate owned.
4. Property photos

Please contact Tony Petosa, Nick Bertino, Erik Edwards, or Matt Herskowitz with any questions:

Tony Petosa
Managing Director
1808 Aston Ave., Suite 270
Carlsbad, CA 92008
760-438-2153 office
760-505-9001 cell
tpetosa@wellsfargo.com

Nick Bertino
Managing Director
1808 Aston Ave., Suite 270
Carlsbad, CA 92008
760-438-2692 office
858-336-0782 cell
nick.bertino@wellsfargo.com

Erik Edwards
Director
1808 Aston Ave., Suite 270
Carlsbad, CA 92008
760-918-2875 office
760-402-1942 cell
erik.edwards@wellsfargo.com

Matt Herskowitz
Vice President
1808 Aston Ave., Suite 270
Carlsbad, CA 92008
760-918-6571 office
929-259-1359 cell
matthew.herskowitz@wellsfargo.com

Glossary of lending terms

All-in rate. The interest rate charged to a borrower on a loan. The all-in rate includes the benchmark rate used to set the loan, such as the 10-year treasury rate, plus the spread charged by the lender.

Amortization. An accounting term that refers to the process of allocating of an intangible asset over a specified time period. Also refers to the repayment of loan principal over time.

Assumability. A loan that is capable of being transferred to a new borrower, with no change in rate or terms of the loan. It also allows a borrower to sell a property and avoid paying a prepayment penalty because the loan is being transferred, not paid off. An assumption fee typically applies.

Basis point (BP). A basis point is 1/100 of 1%. Example: 25 basis points are equal to 0.25%.

Capitalization rate. A capitalization or "cap rate" is the yield on an investment if paid for in cash. The capitalization rate is calculated by dividing the net operating income by the purchase price of the property.

Captive Finance Company. A chattel (personal property) finance company lending on homes in land lease communities on behalf of its affiliate, the property owner/ operator.

Cash management. The controls put on a deposit account used to direct funds in a hard lock box arrangement.

Carveouts. These are exceptions to nonrecourse provisions, where the loan is nonrecourse except for lender losses caused by certain acts of the borrower. Examples of triggering events would be unlawful use of insurance proceeds (the property burns down and the borrower does not rebuild) and misappropriation of funds (rents collected by the borrower after they have already lost title to the property). These are sometimes referred to as the "bad boy" carveouts as the borrower usually has to actively do something to impair the collateral and trigger recourse. See also "key principal."

Chattel. Personal as opposed to real property — any tangible, movable property. A manufactured or mobile home would be considered chattel, and the financing of homes within a land-lease community is referred to as chattel financing.

Commercial mortgage-backed security (CMBS). A security backed by a pool of commercial mortgages as collateral. They are usually structured with individual loans to multiple borrowers (often referred to as conduit loans) with a mix of different property types, loan sizes, and locations. These loans are pooled, and bonds with varying degrees of risk and credit ratings are created and sold to investors.

Consumer Financial Protection Bureau. Federal finance regulatory agency established by Dodd-Frank bill.

Debt service coverage ratio (DSCR). An underwriting formula that is a parameter used to determine loan size and spread based on cash flow. The calculation is net operating income divided by loan payment. For lenders, the higher the DSCR, the less risky it is to take on the loan.

Debt yield. Net operating income divided by loan amount. This is a common underwriting constraint used for the sizing of conduit loans (i.e., the loan amount equals the net operating income divided by the lender's required debt yield).

Duty to Serve. The "Duty to Serve" statute requires Fannie Mae and Freddie Mac ("the agencies") to provide leadership to facilitate a secondary market for mortgages, including for chattel, on housing for very low-, low-, and moderate-income families in three underserved markets specified in the statute: manufactured housing, affordable housing preservation, and rural housing. The statute requires the Federal Housing Finance Agency (FHFA) to annually evaluate and rate each agency's compliance with their Duty to Serve requirements and to report annually to Congress on FHFA's evaluations. The rule sets forth specific activities that the agencies may consider undertaking, at their discretion, to be eligible to receive Duty to Serve credit, and provides that the agencies may propose additional activities.

Federal Housing Finance Agency (FHFA). FHFA is an independent federal agency responsible for regulating Fannie Mae, Freddie Mac, and 11 Federal Home Loan Banks. FHFA was established through The Federal Housing Finance Regulatory Reform Act of 2008.

Government-sponsored enterprises (GSEs). GSEs are financial institutions that were created by the U.S. Congress to provide liquidity in a given market segment. Fannie Mae, Freddie Mac, and U.S. Department of Housing and Urban Development (HUD) are examples of GSEs.

Holdback. A portion of the loan that is not released to the borrower until an additional requirement is met. A common example would be a holdback for a physical improvement related to deferred maintenance.

Homesite or site. The piece of realty, whether owned fee simple or leased, scattered or in a landlease or subdivision community, on which a factory-built home is or may be sited. Homesites or sites may also be referred to as lots, pads, spaces, or stalls. (GA)

HUD-Code manufactured housing. A general term associated with the type of factory-built housing whose federally preempted construction standards (e.g. using longitudinal steel chassis in the foundation or floor system) are enforced by the U.S. Department of Housing and Urban Development (HUD). (GA)

Key principal. The individual or entity that controls and manages the borrowing entity and who the lender determines is critical to the successful operation of the borrowing entity and the property. The key principal is typically responsible for recourse carveouts.

Landlord. A landlord is the owner of real estate which is rented or leased to an individual or business, which is called a tenant, lessee, or renter.

Lease. A contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset.

Lease option. A lease that includes an option to purchase the home for a specified dollar amount, during or at the end of the lease term.

Lease-to-purchase. A type of self-finance, offered and provided by the property owner/operator, whereby lessee commits to make rent payments on a home, and in time, receives title to that home. (GA)

Lessee. A lessee is the person or business that rents land or property from a lessor (owner).

Lessor. The owner or title holder of an asset who gives another the right to temporary possession and use of the asset in exchange for rental payments.

Loan to value (LTV). An underwriting calculation that measures the amount of a loan as a percentage of the property's appraised value.

Lock box. A special deposit account set up by a lender and borrower to receive deposits from tenants for the purpose of prioritizing the use of the cash flow of a property.

Manufactured Housing Institute (MHI): The Manufactured Housing Institute is the national trade organization representing the factory-built housing industry. Its members come from all sectors of the manufactured and modular housing industries and 50 affiliated state organizations. Their web site contains links under Industry Resources to web sites for State Associations.

Mezzanine Debt: Bridges the gap between secured debt and equity and receives higher returns compared to other debt, but is typically unsecured.

Mortgage-backed security (MBS). A financing instrument sold by Fannie Mae (FNMA), or other regulated and authorized financial institutions, that is secured by an underlying mortgage. This security is used to lock the interest rate on a FNMA loan before closing when it is sold to an MBS investor.

Net operating income (NOI). NOI is typically calculated using in-place income being collected less stabilized operating expenses, but not including debt service, amortization, or depreciation. Expense deductions also include a management fee (even if not charged) and replacement reserve allowance. The NOI of a property is used to determine the calculation of the DSCR.

Nonrecourse debt. A type of debt in which the principals do not have personal liability for the loan. If the borrower defaults, the lender can seize the collateral (the property), but cannot seek further compensation, regardless of whether that collateral covers the full value of the defaulted amount. An exception is in the event of violation of a carveout.

Occupancy. There are two types of occupancy: Physical and Economic. Physical Occupancy within an MHC is the percentage of rentable homesites being occupied by tenants, calculated by dividing the number of occupied homesites by the total number of rentable homesites at the property. Economic Occupancy is the percentage of rent being collected, calculated by dividing homesite rent that has actually been collected by the potential homesite rent that could be collected if scheduled rent was collected for 100% of the total rentable homesites at the property.

Owner/operator. An inclusive term, commonly used to refer to the individual or business entity overseeing a community or communities on an ongoing basis. (GA)

Portfolio loan. A loan retained on the lender's balance sheet (as opposed to a loan that is originated and then securitized or sold). It is also referred to as a balance sheet loan.

Real estate investment trust (REIT). A REIT is a company that owns or finances income-producing real estate for the purpose of providing investors with a sustainable income stream, diversification from standard stocks and bonds, and the potential for long-term appreciation. REITs typically pay out all of their taxable income as dividends to shareholders. REITs allow both large and small investors to invest in large-scale commercial real estate properties and portfolios.

Real estate mortgage investment conduit (REMIC). The legal term for the pool that is used for collateral for the bonds that are issued in securitized lending.

Recourse debt. Repayment of the loan is guaranteed by personal assets of any principal guaranteeing a recourse loan. This provides additional collateral and a source of repayment beyond the property.

Rent Control: Rent control is a government program that places a limit on the amount that a landlord can demand for leasing a home or for renewing a lease. Rent control laws are usually enacted by municipalities and the details vary widely.

Replacement reserve. An allowance for long-term improvements at a property that is a deduction (expense) included by the lender in underwriting (NOI calculation). Funds may be collected into an account to be disbursed for these defined improvements, or it may only be a deduction made for underwriting. MHCs typically have annual replacement reserves of between $35 per site per year and $75 per site per year.

Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act). Passed in 2008, the SAFE Act mandates states to license residential mortgage loan originators.

Secured Overnight Financing Rate (SOFR): The secured overnight financing rate is an interest rate that banks use to price U.S. dollar-denominated derivatives and loans. The daily SOFR is based on transactions in the Treasury repurchase market. Regulators and market participants globally are in the process of establishing this as a substitute for LIBOR, a long-standing benchmark rate used around the world.

Single-purpose entity (SPE). Lenders often require each property to be owned by a separate single-purpose entity (SPE). This entity will not own other (material) assets or conduct other business. That way, if any of the borrower's other assets are forced into bankruptcy, the subject property could not be consolidated with the distressed property and used as collateral to pay off that debt. Such entities are known as "bankruptcy remote."

Skirting. The metal or vinyl sheathing, or other generally flameproof materials (e.g. nonbearing block wall) around all four sides of the home, extending from the bottom of the sited home to the ground, keeping out weather, animals, rain, and snow. Also referred to in some locales as foundation fascia. (GA)

Spread. The amount charged by a lender over a defined benchmark such as a treasury yield or swap rate. The spread is one component of the all-in interest rate.

Subordinate debt. A form of debt that ranks below other loans in terms of repayment priority. If a borrower defaults, subordinate debt providers will typically receive payment only after the senior debt is paid off in full.

Swap rate. A commonly used index for conduit loans, the swap rate is equal to the swap spread, plus the corresponding treasury yield.

Swap spread. The premium paid by the fixed-rate payer of an interest-rate swap over the yield of the treasury note with the same maturity as the swap.

Third-party reports. Usually ordered by the lender during the closing process, third-party reports commonly include appraisal, environmental, and property condition (engineering assessment) reports.

Trigger event. A post-closing operating covenant providing the lender the right to take a defined action to protect its collateral.

Underwriting interest rate floor. An assumed interest rate (not the actual interest rate paid) used for sizing a loan as it relates to the minimum DSCR required by the lender. It is often used when interest rates are low and for sizing loans with shorter terms (less than 10 years) and higher LTVs. In these instances, the interest rate actually paid by the borrower may be lower than the underwriting interest rate floor.

Vacancy Decontrol: A provision in some rent control laws reserving rent controls and tenant protections for occupied sites or homes, but removing them once the tenant moves out.

Yield maintenance. A prepayment penalty calculated on the basis that the lender will receive early payoff of the funds and reinvest those funds for the balance of the loan term in U.S. Treasuries. Effectively, the borrower is required to pay the difference between the interest rate and the treasury yield at the time of prepayment (the "yield maintenance") for the balance of the loan term. This is a common prepayment penalty used with fixed-rate term loans.

Note: (GA) at end of definition denotes borrowing with permission from George Allen's Official Manufactured Housing & Land Lease Lifestyle Community Lexicon & Glossary

Tony Petosa, Nick Bertino, Erik Edwards, and Matt Herskowitz specialize in financing multifamily properties — manufactured home communities (MHC) and apartments. Wells Fargo offers Fannie Mae (FNMA), Freddie Mac (Freddie), CMBS (conduit), balance sheet, FHA/HUD and correspondent lending programs, and since 2000 has originated more than $15 billion in financing within the MHC sector. Wells Fargo was named Community Lender of the Year, for 12 years in a row, by the Manufactured Housing Institute and has been the #1 commercial real estate lender in the U.S. since 2009 according to the Mortgage Bankers Association (MBA).

wellsfargo.com/mhc

Wells Fargo Corporate & Investment Banking (CIB) and Wells Fargo Securities (WFS) are the trade name used for the corporate banking, capital markets, and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, member of NYSE, FINRA, NFA, and SIPC, Wells Fargo Prime Services, LLC, member of FINRA, NFA and SIPC, and Wells Fargo Bank, N.A., member NFA and swap dealer registered with the CFTC and security-based swap dealer registered with the SEC. Wells Fargo Securities, LLC and Wells Fargo Prime Services, LLC, are distinct entities from affiliated banks and thrifts.
© 2022 Wells Fargo & Company. 7246211