

Report ②

Manufactured Housing Costs And Finance

MANUFACTURED
HOUSING
RESEARCH
PROJECT

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REPORT 2

MANUFACTURED HOUSING COSTS & FINANCE

EXECUTIVE SUMMARY

Research has shown that the demand for manufactured housing appears to be extraordinarily sensitive to changes in price. Therefore, the University of Michigan research report on Manufactured Housing Costs investigated the cost or affordability characteristics of manufactured housing in some detail. Costs were divided into two major categories in terms of their consumer impact. These were first, the initial cost obligation and cash outlay for the housing, and second, the ongoing annual and monthly housing costs. Five prototype manufactured housing options were examined and these, in turn, were contrasted with comparable site-built housing alternatives.

As in other studies of this type, both the initial cost to the consumer along with the initial cash outlay ("front-end costs") required are significantly different for the different forms of housing compared. Manufactured housing shows significantly lower initial capital costs. This cost advantage results from three major factors: the economies of scale inherent in the manufacturing process resulting in dramatically lower construction costs per square foot; the building systems innovation that has resulted from a sensitivity to issues of both quality and cost, and the fact that, for many consumers, land is less expensive since lots in manufactured home communities are rented and not purchased.

In the comparison of annual/monthly housing costs, there are again substantial differences which result in different income levels necessary to occupy the home, a key measure of affordability. Manufactured housing is shown to have affordability advantages given the lower amount of mortgage principal and interest incurred, along with lower tax and operating and maintenance payments. On the other hand, rent is a significant and rising cost in terms of affordability of both manufactured housing and comparable rental apartments.

Arrangements for financing the purchase of manufactured housing significantly affect the affordability of that housing. Therefore, the University of Michigan study examined both the history and current status of financing available to manufactured home buyers. Historically, such financing began in a form more similar to that used to purchase automobiles rather than site-built houses. Today in Michigan, manufactured homes placed on private property enjoy

the same financing and costs as site-built housing when a mortgage loan is obtained. Manufactured homes not financed as real (estate) property are financed as personal property on an installment basis (This includes all homes located in rental park communities). The conditions of such installment loans have, however, been evolving to resemble more closely in terms and interest rates those of conventional mortgage financing. Both forms of financing offer the consumer different interest rates, fees, and loan maturities that are associated with different ways that lenders have developed for managing risk and both have different advantages and disadvantages for the housing consumer.

The housing purchase decision process is heavily influenced by the concept of overall value, which is a combination of both quality and cost. The University of Michigan research project compiled and analyzed relevant information on both of these important dimensions of value. The findings indicate that manufactured housing compares favorably with site-built housing as an affordable housing option.

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