LUMENT

MHC FINANCING GUIDE

MANUFACTURED HOUSING COMMUNITIES

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MHC FINANCING GUIDE

MANUFACTURED HOUSING OVERVIEW

> "The manufactured housing industry has evolved dramatically over the last two decades. The past few years alone have brought tremendous growth opportunities, new financing products, and other positives for MHC owners and investors."
>
> **CHAD HAGWOOD**
> Senior Managing Director,
> Head of MHC Production

The manufactured housing community (MHC) sector has become an attractive opportunity for investors across the country over the years. What started as a relatively taboo investment asset-class and was later institutionalized by the likes of industry pioneer Sam Zell has expanded into a diverse and competitive housing sector that is largely shaped by working-class families, retirees, and students. In today's market, it serves as a vital and stable resident sector that mid-market owners and investors can tap into for portfolio growth. However, there are important fundamentals for MHC investors to consider—especially for newer owners looking to enter the market.

WHAT IS MANUFACTURED HOUSING?

A manufactured home is any house built on a permanent chassis that can be transported in one or more sections and is designed to be used as a residence. It is constructed in a factory, transported to the desired location, and complies with the construction standards set by the U.S. Department of Housing and Urban Development (HUD). The foundation is typically made of steel frames, upon which insulation layers are added for thermal protection. Subsequently, the flooring system and plumbing components are installed, with the floor frame and plumbing then assembled. Manufactured homes are available in various sizes, styles, and designs—ranging from standard-sized homes to larger, multi-sectional homes.

Decades before large private equity firms and other institutional investors entered the market, the MHC business was largely operated by mom-and-pop investors who saw the opportunity to build a viable housing model from the ground up. In recent years, many of those entrepreneurial investors have been replaced by larger firms with deeper capital pools, stronger equity backing, and greater access to debt financing.

WHAT IS THE DIFFERENCE BETWEEN MANUFACTURED AND MOBILE HOMES?

Both manufactured homes and mobile homes – also referred to as prefabricated (prefab) or factory-built – fall under the regulation of HUD. While the terms are often used interchangeably, the distinction lies in how the home is made.

Manufactured homes are held to construction standards and regulations updated in June 1976 to enhance safety and quality. Prefab homes built prior to the new standards being implemented are considered "mobile homes."

WHY MANUFACTURED HOMES?

Manufactured homes remain a crucial solution to the affordable housing crisis. They meet the need for affordable housing in the U.S., and there continues to be positive growth. That's especially true when the real estate industry grapples with issues ranging from rising interest rates and insurance premiums to supply chain setbacks and labor shortages.

Investor demand for MHCs also continues to rise steadily. We are seeing this firsthand at Lument, where we've been actively closing deals with clients across the nation.

The average cost per square foot for a manufactured home is just over $80. The number of billion-dollar funds in the MHC space is steadily increasing, with few signs of slowing down. In some cases, portfolios have hit the market in recent years with asking prices of $500 million-plus.

Site Built Home
$100 - $200
per sq. ft.

Manufactured Home
$80
per sq. ft.

$500M
Asking Price of Portfolios in Recent Years

DEMAND AND AFFORDABILITY

Nearly 21 million people in the U.S. live in a manufactured or mobile home and manufactured homes make up close to 11% of annual new home starts. Housing demand plays a significant role in influencing the manufactured housing market.

When traditional site-built homes become less affordable for many, prospective homebuyers may turn to manufactured housing. Demand can also lead to higher occupancy rates and potentially higher rental or purchase prices as more people choose to rent or purchase homes within these communities. Investors and owners/developers may find opportunities to create new manufactured housing communities or refurbish existing ones to meet demand.

MHC Residents

21 million people

in the U.S. live in a manufactured or mobile home

11%

of new homes are manufactured homes

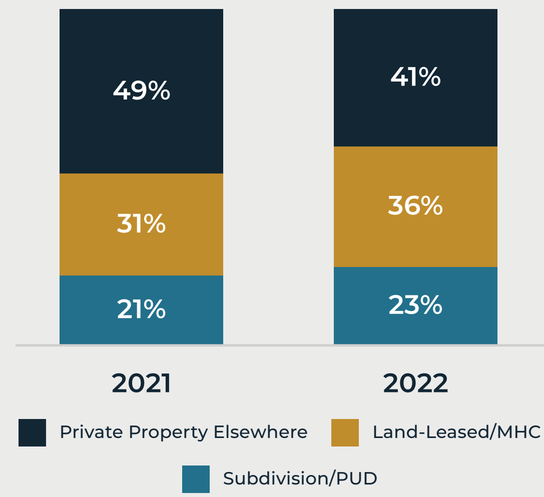
According to Fannie Mae:

Manufactured homes can be placed in a variety of locations. Developers of planned unit developments (PUD) or subdivisions may include manufactured housing built to HUD standards for purchase. Other buyers of manufactured homes may have them placed on private land.

However, annually, roughly a third of manufactured homes are shipped to MHCs, where they have been purchased by the MHC owners to either sell to a prospective homeowner or to offer as a rental unit.

(Fannie Mae, 2023)

Location of New Manufactured Homes Shipped (for Residential Use Only)



Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development, Manufactured Housing Survey. Note that data was provided for only about half of the units shipped which may overstate the share of homes placed in subdivisions/PUD

Demographics: Regions with stronger population growth, economic development, and housing shortages, create demand for MHC communities. In addition, changing demographic trends, such as an aging population or an increase in single-person households, can influence housing demand. In more recent years, the percentage of millennials has surpassed other groups in terms of those likely to purchase, followed by Generation X. Here is a glimpse of demographics from a Freddie Mac survey:

Likelihood to Consider Purchasing by Generation

Generation	Likelihood to Purchase
Millennials	68%
Gen X	62%
Gen Z	61%
Boomers	40%

Likelihood to Consider Purchasing by Race

Race	Likelihood to Purchase
Black	66%
Hispanic	61%
White	61%

Likelihood to Consider Purchasing by Urbanicity

Urbanicity	Likelihood to Purchase
Urban	67%
Rural	64%
Suburban	56%

In addition, MHC occupancies remained mostly steady in all regions of the U.S. for all age groups. For five of the regions being tracked by Fannie Mae, the occupancy has previously exceeded 93% despite rent increases, with the Pacific and West region having the highest average occupancy rate followed by the Midwest region as shown below.

All Ages MHC - Occupancy and Rents for Select Regions*

Region	Occupancy Q2 2023	Occupancy Q2 2022	Change
Midwest	89%	89%	0.5%
Northeast	94%	93%	0.2%
Pacific	99%	99%	0.1%
South	95%	95%	0.4%
Southwest	94%	94%	0.6%
West	97%	96%	0.1%
National	93%	93%	0.4%

Region	Rent Q2 2023	Rent Q2 2022	Change
Midwest	$490	$461	6.3%
Northeast	$577	$543	6.3%
Pacific	$1008	$951	6.0%
South	$575	$536	7.3%
Southwest	$550	$507	8.5%
West	$762	$703	8.4%
National	$624	$584	6.8%

Source: Datacomp/JLT
*As of July 5, 2023, Based on Trailing 12-month average.
Note: Pad Site Rents exclude utility payments.

Regulatory Factors: Government policies and regulations related to housing can impact demand. For instance, policies promoting affordable housing or that ease zoning restrictions may boost demand for manufactured homes, as the placement of the property may be more affordable and flexible.

LUMENT CAN HELP YOU BUILD AND EXECUTE A FINANCING PLAN.

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FACTORS DRIVING GROWTH

As housing prices continue to rise, more buyers are exploring alternative options to traditional homes. Among these alternatives, manufactured homes offer an attractive option without compromising essential features.

Here are some of the most common reasons why people opt for mobile homes:

AFFORDABLE HOUSING SHORTAGE

In regions facing a shortage of affordable housing, manufactured homes have become a viable solution. They are generally more cost-effective than traditional site-built homes, making homeownership more accessible to a broader range of people. Investors and developers have recognized the demand and have expanded manufactured housing communities with affordability being a driving factor in their growth. The newest generation of smaller investors still has a chance to tap into one of the U.S. housing market's most recession-proof asset classes.

REGULATORY CHANGES

Regulatory changes have played a significant role in the growth of manufactured housing. The introduction of the HUD Code in 1976 established construction standards for manufactured homes, ensuring a higher level of safety and quality. These standards have given consumers more confidence in the durability and safety of manufactured homes.

YOUNGER INVESTORS

Investors have increasingly recognized the potential for profitability in MHCs. An emerging trend is the growing popularity of MHCs among younger households. All age groups are interested in these quality, less expensive housing options and the ability to generate rental income from multiple units in one location has made these investments attractive.

QUALITY CONTROL

The construction of manufactured homes includes stringent quality control measures in the factory, reducing the likelihood of errors or defects in the building process.

IMPROVED QUALITY, DESIGN AND CUSTOMIZATION

Modern manufactured homes come with a range of customization options for floor plans, finishes, and features, allowing buyers to tailor their homes to their preferences.

They often feature improved quality of materials and construction techniques, attractive designs, energy-efficient features, and amenities comparable to site-built homes.

ADVANCEMENTS IN TECHNOLOGY

Advanced manufacturing technology has improved the efficiency and precision of the construction process. This has led to reduced costs and shorter construction timelines.

LOCATION FLEXIBILITY

Manufactured homes can be placed on a variety of properties, including MHCs, private land, and rural settings, providing flexibility in choosing a location.

AMENITIES AND COMMUNITY LIVING

Many MHCs now offer additional amenities such as swimming pools, fitness centers, and recreational facilities, making them more appealing to buyers seeking a sense of community and lifestyle.

SMALL AND MID-MARKET OWNERS LOOKING TO EXPLORE NEW INVESTMENT AND FINANCING OPPORTUNITIES CAN LEARN MORE FROM THE MHC EXPERTS AT LUMENT.

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THE COMMITMENT TO SUSTAINABILITY

Manufactured housing, when designed and implemented with sustainability and environmental considerations in mind, can help address several concerns and contribute to more eco-friendly housing solutions that are top-of-mind for today's generation.

Here are some of the environmental concerns that manufactured housing can help solve:

RESOURCE EFFICIENCY

Manufactured homes are often built in a controlled factory environment, which allows for more efficient use of materials and can reduce waste and resource consumption compared to traditional site-built construction.

ADAPTABILITY AND EFFICIENCY

Because of their construction methods, manufactured homes can be designed to be adaptable and easily upgraded with energy-efficient and environmentally friendly features.

ENERGY EFFICIENCY

Many modern manufactured homes are designed with energy-efficient features, such as high-quality insulation, efficient heating and cooling systems, and energy-efficient windows and doors. These features can help reduce energy consumption and lower greenhouse gas emissions.

LOWER CARBON FOOTPRINT

Compared to larger, site-built homes, smaller living spaces require less energy for heating and cooling and generally result in lower energy usage.

WASTE REDUCTION

The controlled factory construction process can minimize construction waste, which is a significant environmental concern in traditional construction, leading to less landfill waste.

TRANSPORTATION EFFICIENCY

The homes are typically transported to their final location in sections, reducing the need for on-site construction and associated transportation of building materials, lowering carbon emissions associated with construction.

RENEWABLE ENERGY INTEGRATION

These homes can be designed to accommodate renewable energy sources like solar panels, further reducing reliance on non-renewable energy and lowering carbon emissions.

WATER CONSERVATION

Water-efficient fixtures and appliances can be incorporated into manufactured homes to reduce water consumption, benefiting areas with water scarcity issues.

AFFORDABLE GREEN HOUSING

Manufactured homes are often more affordable, making green and sustainable living more accessible to a broader range of people.

LAND USE

In some cases, manufactured homes can be placed on smaller lots or in communities with shared resources, reducing the overall environmental impact of land use and development.

RETROFITTING AND MODERNIZATION

Older manufactured homes can be retrofitted with green technologies and materials, improving their energy efficiency and sustainability.

MARKET OUTLOOK

Several factors influence mortgage rates for MHC acquisitions and refinances today, including industry reactions to Federal Reserve reports, inflation levels, the overall economic outlook, and the performance of individual owner portfolios. Inflation impact should be measured appropriately, including how it affects everyone from low-income residents to equity partners.

The U.S. Department of the Treasury reported that the economy in 2023 proved highly resilient in the face of higher interest rates and elevated inflation. It outperformed expectations along three key dimensions: growing economic output, labor market resilience, and inflation.

In 2024, the real estate investment and development industry has been impacted by higher mortgage rates, higher home prices and low housing inventory levels. For MHCs developers and operators, the demand for housing inventory has created growth in popularity among younger households. Additionally, the costs for insurance, construction, labor, and supplies have accentuated the importance of diligent community management. To cater to increasing demand for affordable living options, new MHC development and infrastructure upgrades are desperately needed.

In response to dramatic increases in applications from those wanting to live in their own homes, MHC developers have responded with increased investments in amenities and infrastructure upgrades as well as installed thousands of new homes to meet growing demand. Experts predict that MHCs will continue to grow as homeownership remains out of reach for many. The appeal of manufactured housing is increasing as existing stock is revamped and new supply is added to the market. These factors could fuel further growth in the sector but also remain key considerations for real estate investors on top of labor shortages and supply chain hurdles.

It is critical to work with a lender that understands the important distinctions and nuances of all the loan program requirements as well as federal, state, and local protocols.

7 FACTORS THAT INFLUENCE MORTGAGE RATES

1. Reactions to Federal Reserve Reports
2. Performance of Owner Portfolios
3. Operating Costs (Insurance, Labor, etc.)
4. Overall Economic Outlook
5. Market Demand
6. Inflation Levels
7. Economic Output

ENVIRONMENTAL AND STRUCTURAL CONSIDERATIONS

PHYSICAL AND ENVIRONMENTAL

A Property Condition Assessment (PCA) and a Phase I Environmental Site Assessment (ESA) are typically part of the requirements for commercial real estate financing. The PCA report evaluates the current condition of the property, the improvements, and an estimate of capital needs over the required term (typically 12 years for a 10-year loan term). The ESA report evaluates the environmental condition of the property. ASTM International (formerly known as the American Society for Testing and Materials) provides the industry standard scopes for ESA and PCA reports.

It is important to discuss these reports with a Lument team member, as government-sponsored enterprises (GSEs) amend their ASTM scopes with certain 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. For instance, if you are refinancing a property that you will have access to during the due diligence process, it makes it easier to complete repairs compared to an acquisition transaction where property repairs are more difficult to amend prior to closing.

There is typically less preparation that can be done during the Phase I ESA scope other than making sure Lument receives historical ESA and subsurface reports and as much information about any potential historical releases on the property to ensure quick review and avoid unnecessary delays.

Lument can provide a list of MHC property configuration requirements. For example, the GSEs generally require paved roads with two paved parking spaces per pad and that all homes are professionally skirted with hitches removed or concealed. Because the GSEs have certain standard property requirements for MHCs, it is best to have Lument communicate any questions or issues with the GSEs, as well as the PCA/ESA consultant, early in the process to avoid surprises or expensive requirements arising after the loan application has been accepted.

In some cases, Lument may have to submit a waiver request to the GSE for certain property related characteristics. These are often approved when the consultant can demonstrate that any non-conforming property characteristics are common in the subject property's market area.

After discussions with Lument, 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 property components discussed below are arguably the most common culprits resulting in unexpected capital costs identified in a PCA for a manufactured housing property.

ASPHALT AND CONCRETE

In the past, 65% to 70% of capital reserve estimates have been attributed to asphalt and concrete repair and replacement during the term of evaluation. In some cases, drives and parking areas will only require surface sealcoat during a 12-year evaluation term. Surfaces that show more significant wear, may require more expensive surfacing early in the reserve term.

For that reason, it is a good idea to obtain a written estimate from a licensed contractor for the area to be repaired, as this may ultimately be less expensive than what a PCA consultant may assess and reduce escrow amounts associated with the repairs.

POTABLE WATER WELLS AND WASTEWATER TREATMENT SYSTEMS

When considering lending options through Fannie Mae and Freddie Mac, keep in mind that they require detailed information in both the PCA and ESA reports about potable water systems, ensuring that any delinquent water quality testing is performed, and any other regulatory anomalies are rectified.

MHC properties are often provided with municipal drinking water and sanitary sewer services, but it is not uncommon for MHCs in more suburban or rural locations to provide their own services. For example, you will need to provide Information about the equipment, water quality, verification of professionally licensed water system servicing, and verification that there are no current requirements to tie into nearby municipal systems.

SEPTIC SYSTEMS

If public service is not available for tapping into the sewer system, a septic system will be needed. The type of septic system needed can depend on various factors including lot size, ground slope, soil conditions, size of the home/occupancy, local/state regulations, and your budget. Permits, testing, and inspection are normally requirements for installation, and your local health department may have septic tank placement requirements. The septic system is permitted and inspected by your local permitting authority and must be submitted to the lender.

The owner is responsible for the overall operation, regular maintenance, inspections, repairs, or replacement of the system. This is important because a failing, or non-compliant system, can result in a large expense and potential challenges with your financing. It is a good idea to have a lender who understands all the implications.

MHC FLOOD ZONES

You should know if your property 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.

If only a portion of the sites within an MHC are located within a high-risk flood zone, most lenders may make an underwriting adjustment to account for the sites located within the flood zone by not underwriting any income from those sites.

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. 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.

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 in a high-risk flood zone. This is why it is important to talk to your lender about the details.

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LOAN OPPORTUNITIES

NON-BANK LENDERS

There are many real estate lending options, but because of the nature of manufactured homeownership, it is difficult to get a traditional mortgage for a manufactured home loan.

Each lender adjusts their lending practices based on considerations such as market demand, regulatory constraints, highly matrixed approval processes, and borrower eligibility.

Non-bank lenders, like Lument, are becoming more common and offer advantages to MHC investors. These include:

Faster Approval For Funding

A more streamlined approval process can result in quicker loan approval and funding which is important when time is of the essence.

Flexible Terms

Such terms as adjustable interest rates, interest-only payments, and shorter loan durations can help borrowers tailor the loan to their specific needs and financial situations.

Diverse Loan Products

A range of lenders specialize in niche markets and may offer a variety of loan products that are not be available from traditional banks. This can include bridge loans, or loans for unconventional properties.

Less Stringent Requirements

Which may offer more flexible qualification criteria making it easier for borrowers with unique financial circumstances.

Personalized Service

The goal is to work for the customer. For instance, Lument offers attentive service compared to larger financial institutions. You will have direct access to highly experienced decision-makers, simplifying the communication and approval process.

FANNIE MAE AND FREDDIE MAC (GSEs)

GSEs account for nearly 50% of all multifamily mortgage debt outstanding in the U.S. They provide loans to borrowers who want to purchase or refinance manufactured homes. Fannie Mae and Freddie Mac are the two GSEs that actively lend on MHCs, and both have proven to be reliable sources of financing through numerous market cycles.

Both have been responsive to market changes in the MHC sector and have 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. Lument specializes in GSE loans for MHCs. The Lument team has seasoned specialists to help MHC investors get the right financing for their property's business plan.

COMMERCIAL MORTGAGE-BACKED SECURITIES (CMBS)

A CMBS loan is a type of real estate financing arrangement that involves the pooling of multiple commercial real estate loans of many property types including multifamily and MHC, which are then securitized and sold to investors in the form of bonds or securities.

Investors and borrowers should carefully evaluate the terms, risks, and benefits of CMBS loans and consider seeking professional advice when dealing with these financial instruments.

LIFE INSURANCE COMPANIES (LIFECOS)

A life insurance company (LifeCo) loan for real estate is typically sought by investors and property owners looking for stable, long-term financing options. Borrowers should carefully review the terms and conditions of these loans, as they can vary dramatically among different life insurance companies.

They generally have more conservative underwriting standards that focus on the creditworthiness of the borrower, property quality, and the property's cash flow, but offer competitive interest rates.

Borrowers may need to plan for balloon payments, where a significant portion of the principal is due at the end of the loan term or refinance the loan when the balloon payment becomes due. These loans also may have penalties or provisions that can make it costly for borrowers to pay off the loan before the scheduled maturity date.

BANKS

Portfolio lenders, such as banks and credit unions, may have more flexibility in their lending terms, underwriting criteria, and loan approval processes compared to lenders that sell loans on the secondary market. However, borrowers should be aware that portfolio lenders may have their own unique lending standards and may offer different terms and conditions.

One distinction is that unlike the non-recourse lending options provided by the GSEs, CMBS lenders, and LifeCos, MHC owners should be prepared to sign personal guarantees. Banks with a good understanding of MHCs (i.e., strong credit performance) can be an alternative for financing MHCs.

DEBT FUNDS

A debt fund is an investment pool comprising private equity in which core holdings are fixed-income investments. Finding a debt fund in the market today is a little more difficult than the past few years and finding one that fits your requirements may be more of a challenge. They often lend on challenging properties at a higher interest rate, withborrowers that may have less-than-perfect credit and more complicated loan structures or lease up scenarios.

Debt funds often focus on loans over $10 million with flexible structures and shorter closing timelines. Some do smaller transactions and provide longer-term capital. These lenders are often used for re-positioning properties for higher cash flow in the future. They accept higher risk by relying on the support of the underlying asset value.

PRIVATE EQUITY OR HARD MONEY LOANS

Private equity or hard money lenders can provide short-term financing for MHC investments when traditional lenders may not be an option. These loans typically have higher interest rates and shorter terms, but they can be useful for acquiring properties quickly.

SELLER FINANCING

In some cases, you may negotiate seller financing with the current owner of an MHC. This arrangement allows you to make payments directly to the seller, often with more flexible terms than traditional lenders.

REAL ESTATE CROWDFUNDING

Real estate crowdfunding platforms can provide access to a pool of investors willing to fund MHC projects. This option may be suitable for those who want to raise capital for an MHC investment without taking on traditional debt. Loan-to-value (LTV) ratios and available financing options are also important considerations for MHC owners in today’s market environment.

HOW MIGHT INVESTORS GET A LEG UP IN TODAY'S MARKET?

FIND THE RIGHT ENTRY-LEVEL MARKETS FOR UPSIDE GAINS

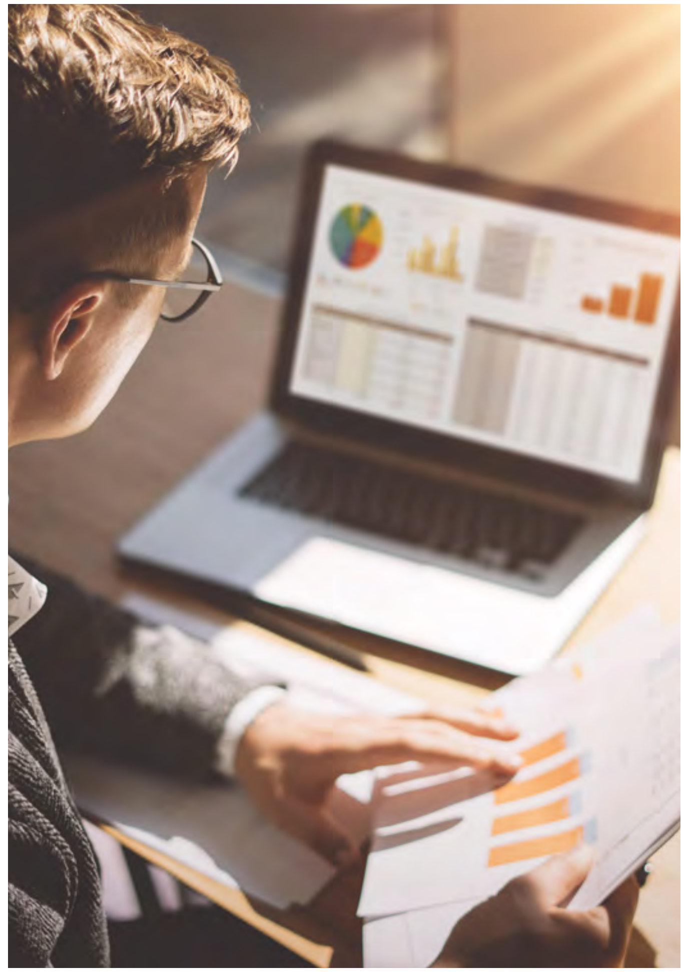
It's no secret that MHC investment activity has been popular in California, Arizona, and Florida for years. However, that doesn't exclude opportunities for smaller owners and operators as the need for more affordable manufactured housing in other states is steadily rising.

This could offer a lower barrier to entry for smaller investors. Metro areas with fast-growing populations and a lower cost of living are typically a good place to start.

INVESTORS SHOULD HAVE A CLEAR AND ORGANIZED INVESTMENT AND FINANCING STRATEGY

That includes having a keen understanding of property and tenant needs as well as strategic financial planning. Research potentially friendly tertiary and secondary markets, educate yourself on the legislative landscape as it pertains to MHCs, and collect as much market data as possible.

Joining an industry association such as the Manufactured Housing Institute can provide important resources. A smart gameplan can help with building a small MHC portfolio.



A FRAMEWORK FOR ASSESSING LOAN ALTERNATIVES

At Lument, we specialize in manufactured housing community financing. To get the best possible loan on an acquisition or refinancing, investors need a financial partner with in-depth knowledge of both MHCs and the right financing options for your needs.

For MHC owners and investors, particularly those new to the industry, there are important ground rules and formulas to keep in mind with interest rates, cap rates, and LTV ratios. Lenders generally issue a preliminary quote prior to an application and good faith deposit to cover the costs, such as third-party reports. The application includes a summary of terms and underwriting assumptions.

It is a good idea to consider what your business plan is for the next five-to-ten-year period to help you determine what type of loan is best for you.

KNOW WHICH RATE TO ELEVATE FOR BETTER LEVERAGE

Deciding between a floating rate (variable rate) loan and a fixed rate loan for real estate financing depends on various factors, including your financial goals, risk tolerance, hold period and market conditions. Here are some considerations to help you determine which type of loan may be better for your real estate investment:

FIXED RATE LOAN

INTEREST RATE STABILITY

This offers stable, predictable monthly payments because the interest rate remains constant throughout the loan term.

LONG-TERM PLANNING

They are preferred for long-term investments or properties you plan to hold for an extended period, as they provide rate certainty for the life of the loan.

RISK AVERSION

An option for those with a low tolerance for interest rate risk or are concerned about potential interest rate increases.

INCOME-PRODUCING PROPERTIES

They are suitable for income-producing properties where stable cash flow is crucial for meeting debt service obligations.

FLOATING RATE LOAN

FLEXIBILITY

May offer greater flexibility, including the possibility of lower interest costs and prepayment penalties if market interest rates decrease.

SHORT-TERM OR VALUE-ADD PROPERTIES

Can be appropriate for short-term investments or properties undergoing value-add strategies. They may also suit borrowers who plan to sell or refinance the property in the near future.

RISK TOLERANCE

Suited for investors with a higher risk tolerance or those who believe that interest rates will remain stable or decrease in the short term.

PREPAYMENT OPTIONS

May have more favorable pre-payment terms, allowing borrowers to pay off the loan without significant penalties.

INTEREST RATE CAPS

Some may come with interest rate caps, which limit the maximum rate increase during a specified period. But beware, these caps can come at a high cost as rates increase.

Many real estate investors use a combination of fixed and floating rate loans in their portfolios to diversify risk and meet various investment objectives. Consulting with Lument will help you understand the current interest rate environment which can be helpful in making an informed decision.

MHC owners and investors looking to maximize their financing options should focus on avoiding negative leverage for an extended period, which occurs when the mortgage interest rate exceeds the cap rate or cash-on-cash return. Given the preponderance of floating rate, short-term bridge financing for MHC acquisitions, and a potential rise in rates, this rule is more important than ever.

That may seem like a tall order given today's demand for MHC product; top tier manufactured home communities routinely generate lower cap rates than other commercial real estate assets such as multifamily. Overall, MHC cap rates were hovering close to 6%, on *average*, for transactions closed in the fourth quarter of 2023. Many borrowers have quickly found themselves in a negative leverage position, especially those with parks in lease-up, due to poorly structured adjustable-rate loans facing rate increases month over month.

A safe guideline for MHC sponsors seeking new financing is to keep their cap rates at least one point above their interest rates to achieve maximum leverage. If the interest on a loan is higher than the cap rate on the property in need of new acquisition financing, borrowers will be hard-pressed to find a lender that can make the numbers work with an LTV above the 60% to 65% range.

Both agency and non-agency lenders will always size up the LTV and the debt service coverage ratio (DSCR) on an MHC property to determine final proceeds. With today's rates, most deals are DSCR constrained.

RATES AND UNDERWRITING

The most important factor for borrowers to watch today is the state of MHC loan underwriting.

Overall, underwriting remains very favorable for borrowers and debt coverage requirements are still aggressive. Tighter underwriting (i.e., a lender moving its DSCR from 1.25x to 1.35x) has a far greater impact on a sponsor's proceeds than a 25-basis point increase in rates.

Find the right markets and opportunities and act. There have been countless MHC "experts" entering the market in the past few years, many of whom have only seen values go up and rates go down. Experience matters and dealing with someone who knows both the ups and downs of the industry is a wise choice.

Additionally, nuances matter, and working with a lender that knows those nuances will benefit the borrower. As underwriting standards get tighter due to liquidity constraints and market concerns, a knowledgeable lender will move the needle for many MHC borrowers going forward.

MHCs have withstood tough times before and remain an excellent recession-proof option for owners and investors in virtually any economic climate. The right financing and deal terms only accentuate this resilience.

GETTING STARTED WITH LUMENT

We understand that finding the right financing relationship is a crucial part of your success. To get started, here are some steps you can take in preparation for your financing discussion.

GATHER FINANCIAL DOCUMENTATION

This includes proof of income, tax returns, bank statements, and other relevant financial records. Lenders typically require this information to assess your financial wherewithal.

CHECK YOUR CREDIT REPORT

Before applying for financing, obtain a copy of your credit report and review it for accuracy. Address any errors and take steps to improve your credit score if necessary.

DETERMINE LOAN AMOUNT AND TYPE

Decide how much financing you need and the type of loan that suits your needs. Common options include purchase loans, refinancing loans, and cash-out refinancing loans.

CONSULT WITH AN MHC LOAN SPECIALIST

Schedule a meeting with an MHC loan specialist to begin the discussion on your financing options, terms, and any additional requirement information.

FOR SOFT QUOTE

- RENT ROLL
- NON-RECURRING EXPENSES
- OPERATING BUDGET
- DETAILS OF EXISTING FINANCING
- CAPITAL EXPENDITURES
- OPERATING STATEMENT
- BRIEF PROPERTY DESCRIPTION
- GROUND LEASE (IF ANY)
- OCCUPANCY HISTORY
- PHOTOS OF THE PROPERTY

PROPERTY FINANCING ELIGIBILITY

There are a range of factors that can impact the eligibility of the community you are interested in financing and that coincide with the preparation for a loan. This includes utilities and infrastructure, zoning and land use compliance, and permit restrictions or regulations during construction and setup. It is also important to understand the details on local tax implications, and land.

To provide you with the best assessment, we've developed a questionnaire to help us evaluate the financing eligibility of the property. This will help us tailor our next conversation. To get started, simply click on the link below to access the short questionnaire. It should only take a few minutes to complete, and your input will be invaluable in helping us provide you with the right options.

GET STARTED WITH OUR FINANCING ELIGIBILITY QUESTIONNAIRE

Thank you in advance for taking the time to complete our questionnaire and if you have any questions or require further assistance, please don't hesitate to reach out to our team. We're here to support you every step of the way.

Once we begin moving forward with your loan, we will provide you with the loan request package and work with you through our underwriting process. Lument is a leader in the industry and manages underwriting through a proprietary technology that streamlines the process through underwriting and closing.

LUMENT CAN HELP YOU BUILD AND EXECUTE A PLAN.

CLICK HERE TO LEARN MORE.

GLOSSARY

CHATTEL

This is personal, movable property not considered real estate. A manufactured or mobile home is categorized as chattel, and the financing of homes within a land-lease community is generally called chattel financing.

HUD CODE MANUFACTURED HOUSING

This refers to factory-built homes that adhere to construction standards established and enforced by the U.S. Department of Housing and Urban Development (HUD). These standards, which include the use of longitudinal steel chassis in the foundation or floor system, are federally preempted and ensure quality and safety in the construction process, providing homeowners with confidence in their home's structural integrity.

MANUFACTURED HOUSING INSTITUTE

The Manufactured Housing Institute (MHI) is a national trade organization that serves as a representative body for the factory-built housing industry. It comprises members from all sectors within the manufactured and modular housing industries and 50 affiliated state organizations. The institute plays a crucial role in advocating for the interests of the factory-built housing industry and promoting collaboration and growth within the sector.

MHC FINANCE: MORTGAGE TERMS

Some important mortgage terms you may encounter in manufactured housing financing include:

COMMERCIAL MORTGAGE-BACKED SECURITY (CMBS)

CMBS are financial instruments backed by a pool of commercial mortgages serving as collateral. They are typically structured by aggregating individual loans from multiple borrowers with different property types, loan sizes, and geographic locations. These loans are pooled together, and bonds with varying levels of risk and credit ratings are created and offered to investors in the market.

MORTGAGE-BACKED SECURITY

Mortgage-backed securities (MBS) are investment instruments sold by Fannie Mae, Freddie Mac, or other regulated and authorized financial institutions secured by an underlying mortgage. MBS are typically a collection of home loans and other real estate debts purchased from originating banks. Investors who hold mortgage-backed securities receive regular payments similar to bond coupon payments.

REAL ESTATE MORTGAGE INVESTMENT CONDUIT (REMIC)

This is the legal term to describe the pool of assets, typically mortgages, that serve as collateral for the bonds issued in securitized lending.

SECURE AND FAIR ENFORCEMENT FOR MORTGAGE LICENSING ACT (SAFE ACT)

The SAFE Act was enacted in 2008 to ensure that every state licenses residential mortgage loan originators, providing greater security and fairness in mortgage lending practices.

ALL-IN RATE

The all-in rate is the comprehensive interest rate charged to a borrower on a loan. It comprises the loan's benchmark rate, such as the 10-year treasury rate, along with the additional spread charged by the lender.

ASSUMABILITY

A loan that can be transferred to a new borrower without changing the terms or interest rate. This feature enables a borrower to avoid paying a prepayment penalty while selling a property since the loan is being transferred, not paid off. However, an assumption fee typically applies.

CAPTIVE FINANCING COMPANY

A finance company specializing in chattel (personal property) financing—focused on lending for homes in land lease communities on behalf of its affiliated property owner/operator.

FEDERAL HOUSING FINANCE AGENCY (FHFA)

The FHFA is an independent federal agency regulating Fannie Mae, Freddie Mac, and the 11 Federal Home Loan Banks. Its establishment dates back to The Federal Housing Finance Regulatory Reform Act of 2008.

UNDERWRITING INTEREST RATE FLOOR

A hypothetical interest rate (not the actual rate paid by the borrower) used during loan underwriting to determine the minimum debt service coverage ratio (DSCR) the lender requires. This approach is often employed when interest rates are low and when sizing loans with shorter terms (less than ten years) and higher LTV ratios.

DEAR READER,

Thank you for taking the time to review our MHC Financing Guide! Our goal for creating this is to prepare you with information that may be helpful on your path to investing in Manufactured Housing. We have a team of experts dedicated to helping you at any stage. We look forward to learning more about your lending needs!

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As a non-bank lender, Lument helps developers and investors in various ways. We have a highly knowledgeable team of MHC experts that offer clients a personalized approach and shorter timelines to closing. Contact us to discuss how we make it simple for you.

Sources Include:

Journal of Urban Economics, Journal of Housing Economics, Journal of the American Planning Association, U.S. Department of Housing and Urban Development (HUD), Census Bureau – American, Housing Survey (AHS) and the American Community Survey (ACS), Urban Land Institute, National Low Income Housing Coalition (NLIHC), Manufactured Housing Action (MHAction), JSTOR, Google Scholar, and PubMed, Urban Land Institute (ULI) - Urban Land Magazine, National Association of Home Builders (NAHB), Builder Magazine, Affordable Housing Finance Magazine, The New York Times, The Wall Street Journal, Bloomberg, Manufactured Housing Institute, Real estate finance companies, and community development professional's blogs.

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