Housing

Mass Production Vs. McMansions

Maurna Desmond, 11.20.08, 3:00 AM ET

The big American homebuilders have dug themselves into a hole from which they may not emerge for years. Having been abettors and subsequently victims of the U.S. housing bubble in the early years of this decade, they may be the last to profit when buyers finally return to the market.

Among the first to profit? Humble creators of manufactured housing. Not only are these low-end homes more in keeping with the spirit of the times than mutant McMansions, they look much better than the double-wides of yore and subsidy-happy Uncle Sam is about to include them under the aegis of its favored lending programs.

If that doesn't sway you, consider that America's investor laureate Warren Buffett has already staked a claim to the market: His Berkshire Hathaway acquired Clayton Homes for $1.7 billion in 2003. Clayton is based in Maryville, Tenn. and currently accounts for about a third of the market.

Berkshire also owns 21st Mortgage and Vanderbilt, the two largest lenders in the industry, assuring a certain availability of finance even in these trying times for credit.

But if you don't want to borrow from Buffett, don't worry. Starting in April, the Federal Housing Administration is increasing loan limits to $70,000 from $46,000 when only the manufactured home --and not the property beneath -- is being financed. That's significant because the average manufactured home went for $65,000 in 2007, and two thirds did not include the land. The previous rules had stingy borrowing limits on deals where the land was not included because the FHA did not like the way these loans were pooled by their originators.

If a buyer purchases the land and the home with the same mortgage, then the limit is the same as for anything else, up to $729,500 in high-cost areas, with a 5.0% downpayment.

FHA loans have become hugely popular in the wake of the subprime mortgage mess because they are essentially the only low-downpayment loan offering available. The agency, which securitizes the debt it backs through the Government National Mortgage Association, has gone from backing 2.0% of U.S. mortgage debt in 2006 to roughly a third of all home loans in 2008. There is no income ceiling or credit floor on an FHA insured loan. A borrower just needs to come up with a 3.0% downpayment and prove sufficient income to pay back the loan.

The changes are part of the Housing and Recovery Act passed in August, and there's more: private-sector lenders are likely to warm to manufactured housing because the mortgage agencies Freddie Mac and Fannie Mae are required to buy the loans for their own securitization efforts.

There's some instrinsic charm in manufactured homes for buyers. For one thing, even beyond the financing, they're affordable. In 2007, factory-built homes went for $40 per square foot while site-built units cost $92. For another, they're likely to become blue-collar chic, which would put them more in line with the ethos of the post-bubble recovery than the ostentation of the subprime period.

Tom Beers, the chief economist at the Manufactured Housing Institute, which represents 90.0% of the industry, said manufactured housing went through a subprime bubble of its own in the late 1990s. Lenders subsequently tightened up on their standards while they were still shoveling cash at underqualified buyers of traditional homes.

That cost the manufactured industry customers, but now that moral rectitude has come to the rest of the market, "we're going to see a level playing field because everyone is now using common-sense lending rules," Beers said.

The manufactured housing industry's share of new-home starts was roughly a tenth of the U.S. housing market between 2004 and 2006 down from 22.3% in 2000 and 33.8% in 1995. The Manufactured Housing Institute expects that figure to grow to 14.8% in 2008 and even higher in the years to follow as the new rules kick in.

Along with Clayton, major home fabricators include Palm Harbor Homes, Champion Homes and Fleetwood Enterprises, which also makes recreational vehicles.

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