

November 2018

MHR

MANUFACTURED HOUSING REVIEW

News and educational articles to help you run your business in the manufactured home industry.

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The Parallels Between the MH and Fast Food Industries

**Rehabbing a Rental Property:
5 lessons Learned**

**Market Correction –
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Affirmatively Furthering Fair Housing

By Deanna Fields,
Executive Director of the
Manufactured Housing
Association of Oklahoma

The Manufactured Housing Association of Oklahoma (MHAO) is writing in response to HUD's request for comment about its amendments to its Affirmatively Furthering Fair Housing (AFFH) regulation. Manufactured homes are an important source of affordable housing across the U.S. MHAO represents all segments of the factory built housing industry in Oklahoma. Oklahoma has appropriately 158,000 homes on the County Assessors rolls. Over 61,000 manufactured homes are on personal property which represents 39% of the total number of homes, and 96,000 homes on real property representing 61% of the total manufactured homes statewide. Interesting fact is our homes bring in about \$3.25 billion in fair cash value and about \$3.25 million in ad valorem tax. According to the latest released 2015 U.S. Census Bureau's Community Survey there are 1,689,427 housing units in Oklahoma. Of those housing units there are 161,082 declared manufactured/mobile homes, which represents up to 9% of all new housing units.

Oklahoma is in dire need of affordable homes. The absence of affordable housing alternatives across some parts of the state is the largest threat to homelessness. Communities must work to ensure that zoning regulations promote the development of housing types serving all income levels, including the providing of temporary and permanent housing to meet the needs of the presently homeless and those at risk for becoming the same.

By the year 2020 Oklahoma will need 66,821 housing units, including 43,942 owned and 22,879 rented according to a comprehensive study by the Oklahoma Housing Finance Agency. Of the projected need for 43,942 housing units for ownership, 17% will be needed by those earning less than 60% of the area median income. Median household income in Oklahoma was estimated at \$47,049 in 2014, compared with the national median household income of \$54,706. Median home value in Oklahoma was estimated at \$112,800, compared with \$176,700 for the U.S. Median gross rent (utilities included) in Oklahoma is estimated to be \$699 per month, compared with \$904 per month for the U.S. About 40% of renters and 19% of owners are "housing cost overburdened" in Oklahoma.

Oklahoma has just been blessed with our newest manufactured housing factory, New Vision Homes in Madill, Oklahoma, since 2012. Producing 6 single section homes a day. These homes are extremely affordable and very well built, unfortunately the majority will go out to rural lands, outside of municipal jurisdictions. Oklahoma is also very fortunate to be centrally located, whereas we have around 40 factory facilities

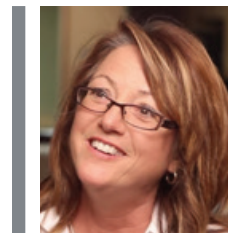
that build homes across the U.S. that are/can transport homes to the "heartland". The diversity in our products can easily address Oklahoma's housing needs.

We join in the comment letter provided by the Manufactured Housing Institute (MHI) and (along with the other recommendations therein) strongly encourage HUD to use its existing power to revise its "Statement of Policy 1997-1 State and Local Zoning Determinations Involving HUD Code" (the "1997 Directive") to reflect the goals of the amended AFFH and the Manufactured Housing Improvement Act of 2000 (the "Amended Act").

MHAO has experienced instances when local land use planning excludes (or code enforcement targets) manufactured housing in communities and such action has a direct or disparate discriminatory impact on protected classes of persons. In many areas across the great state of Oklahoma, towns/cities continue to ban our product from infill that can be architecturally compatible to surrounding site built. We are seeing a trend of small municipalities using the "non-conforming" zoning to ban the replacement of an obsolete older unit with a newer energy efficient unit. Due to their (municipal zoning boards/town hall) outdated mindset continue to refuse anything "transported in" or on a "chassis" in their domain.

HUD cannot solve affordable housing in America until manufactured housing is included in the formula. And manufactured housing will not be in the formula until HUD revises the 1997 Directive. We believe it to be within HUD's jurisdiction and authority to revise the 1997 Directive to be consistent with the changes Congress made via the Amended Act and that HUD should do so in the context of the amended AFFH rule-making process.

We appreciate the opportunity to "chime" in on this topic that needs an overhaul to recognize the most affordable homeownership option in the market today.



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The MH Industry Has Much to be Thankful for This Year

By Dave Reynolds

Thanksgiving is the time of year in which we all gather to give thanks for our blessings. And the entire manufactured housing industry has a great deal to be thankful for in 2018! So while you're cutting up the turkey and setting the table, consider the following.

Huge demand for our product

It's unbelievable how much demand there is for affordable housing in the U.S. I find it amazing that nobody bothered to give it serious attention in the single-family and multi-family sectors and essentially gave us that entire segment of housing by default. I would much prefer selling homes for \$30,000 than \$300,000, particularly given the unstable climate of interest rates and the direction of employment demand. And the dependence, by the multi-family niche, in government assistance to provide lower rents is a dead-end street given the future of our national deficits.

Stable legislative environment

Thanks to the concerted efforts of our state manufactured housing associations, we have continued to enjoy a period of relatively little negative legislative bias, and we continually win grandfathering and property rights issues on the judicial level. I remember how things were in the 1990s - when it was the regular course of business to have city hall harass community owners and threaten their extinction - and I like it much better these days. I believe that part of our success has been a sudden acknowledgment that affordable housing is an important issue and that we do the best job of solving that.

Low interest rates

Sure, rates are up from where they used to be. They had to go up, as quantitative easing had driven them to levels that had never been seen in U.S. history and were completely non-sustainable. However, they are still relatively low and stable. Banking is in good shape, and that's a huge blessing for anyone in real estate (do you remember the 1980s?). Although rates may still go up another point before the increases end, that's still in line with historical norms and we are in an industry where a single rent increase can solve those issues. Remember that it's stability that the lending world cherishes, and we're in a very good place right now.

Positive media coverage

Although there were no major articles about the industry this year (the last one was "The Home of the Future" in Time magazine in 2017) equally important is that there were no negative ones. I remember just a few years back when our

industry was pummeled on a weekly basis by COPs, Jerry Springer, Trailer Park Boys and Myrtle Manor. Fortunately, the whole industry fake stigma has lost favor with Hollywood, and we are now free to go about our business without the public being bombarded with fake stereotypes about "trailer parks".

Friendly people with a common purpose

We are perhaps the only industry in America where neighboring property owners can brainstorm and share notes without being frightened or hating each other. That's because our customers rarely move around and we're not concerned about competition (it's hard to get too scared when your phone rings 100 times per week from potential customers desperately searching for affordable housing). As a result, our industry is somewhat like a fraternity in which all owners see themselves as sharing a common purpose. This is a very powerful relationship, as we are able to find new home remodelers and evictions attorneys and many other facts from or neighboring community owners, and our collective sharing of information allows us to leverage off one another and to protect each other by vetting vendors. Have you ever met a mean, unpleasant community owner? That's about as rare as someone who doesn't like turkey and dressing.

Conclusion

2018 has been a great year for the industry - one of the best of all time. It's amazing how what used to be a "goofy" sector of real estate has blossomed into the only source of affordable housing when the nation's need for what we do has grown into one of America's greatest challenges. I would also like to take this opportunity to thank each and every person that we work with on a regular basis as well as all those who share the common purpose of offering safe, clean, affordable places to live. Have a Happy Thanksgiving everyone!



Dave Reynolds has been a manufactured home community owner for almost two decades, and currently ranks as part of the 5th largest community owner in the United States, with more than 23,000 lots in 28 states in the Great Plains and Midwest. His books and courses on community acquisitions and management are the top-selling ones in the industry. He is also the founder of the largest listing site for manufactured home communities, MobileHomeParkStore.com. To learn more about Dave's views on the manufactured home community industry visit www.MobileHomeUniversity.com.



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The Parallels Between the MH and Fast Food Industries

By Frank Rolfe

Nearly 4,000,000 Americans work in the fast-food industry. It's a \$200 billion revenue sector, which has grown from only \$6 billion in revenue in 1970. It's the fastest growing industry in the U.S. And it's a dominant force in our everyday lives. That's why I find it interesting that the manufactured housing and fast-food industries have so much in common.

A focus on delivering a great product at a low price

One of the largest similarities between fast-food and manufactured housing communities is our dedication to delivering a great product at a low price. We both do what seems impossible, whether it's delivering a \$1 burger or a 3/2 home with yard for \$600 per month. This is the result of a concerted focus on cost containment, understanding the power of volume, and being realistic about what our customers can afford to spend.

Endless - and stable - demand

Our average manufactured home community gets around 20 calls per week from customers looking for an affordable place to live, whether we advertise or not. Some of our properties get several walk-in customers per day, even when we have no homes to rent or sell. That insatiable demand is also true at fast-food restaurants across America, where drive-thru lines never dissipate - even when open 24 hours per day. Of course, the reason both fast-food and manufactured housing enjoy such demand is that a huge amount of the U.S. population is focused on value and on not wasting money, and these are goals that never go out of style.

A huge part of any property's employment - and a great partner

While there are no available statistics on this statement, I would suggest that fast-food is the most dominant employer of manufactured home community residents. You can see the proof of this declaration if you watch your residents stream out to their cars in the morning wearing the various uniforms of the main fast-food companies. And this is a great industry to hold such a concentration of your customers. These jobs are stable and pay decent wages with an average base pay of over \$26,000 per year, or \$52,000 on a two-income household. We have helped many a fast-food worker obtain home ownership in a brand-new 3/2 home through lending programs such as 21st Mortgage.

Frequent (and respectful) neighbors

Perhaps it's because there are so many fast-food companies, or maybe because so many of our properties are located on busy thoroughfares, but our most common community neighbor is a fast-food establishment (for some reason it's normally McDonalds). We respect the fact that they keep their property up to a decent standard, properly mowed and well-painted. We

are always excited when we pull up to a potential acquisition and see that there's a fast-food restaurant nearby. To us, it's an affirmation that the location is solid and the area will be well-maintained.

Always finding ways to update and perfect the business model

Before I was in the manufactured home community business, I owned a large billboard company. And I had every fast-food emporium as advertisers, from McDonalds to Arby's to Dairy Queen. These franchisees would proudly show me their latest developments to increase the rate of speed of food delivery by a couple seconds, or the reduction in the cost of lettuce by a couple pennies. McDonald's even has "Hamburger U" to focus on how to take the business model to the next level. In the same vein, manufactured home community owners are constantly trying to improve operations despite just a handful of variables to work with. Such new improvements as Metron high-tech water meters (that read water usage every 20 minutes and report leaks) and "cable bundling" (in which you buy cable TV, phone and internet for your residents at a greatly reduced package price) are the result of a tight focus on improving operations and costs.

A happy feeling

Let's face it, fast-food is comfort food. Eating a Big Mac is as much fun today as it was when you were 10. Anyone who can eat Jack-in-the-Box tacos and not be excited must have never gone to college. And manufactured home communities also offer a degree of nostalgia, whether it's seeing a pink flamingo in the yard or a football team flag in a window. Fast-food and manufactured home communities are strictly American institutions and steeped in culture all their own. I want in a Cracker Barrel recently and they had T-shirts that proclaimed "Home Is Where You Park It" and RV Christmas Tree ornaments.

Conclusion

The fast-food and manufactured home community industries have a huge amount in common, both as business models as well as sharing employees and customers. It's great company to keep, and we look forward to a long relationship together.



Frank Rolfe has been a manufactured home community owner for almost two decades, and currently ranks as part of the 5th largest community owner in the United States, with more than 23,000 lots in 28 states in the Great Plains and Midwest. His books and courses on community acquisitions and management are the top-selling ones in the industry. To learn more about Frank's views on the manufactured home community industry visit www.MobileHomeUniversity.com.



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Walking The Dog Leads to a HUD Discrimination Charge

A resident walking her mother's dog, an assistance animal, to a common area was fined \$100 by a condo association. As a consequence, the U.S. Department of Housing And Urban Development (HUD) has filed a discrimination charge against the association. Specifically, HUD alleges that the condo association only allowed the resident and her assistance dog to use the common areas when accompanied by her assistance animal. The resident was also limited to a special service entrance when with her support animal. The Condo Association Rules mandated that the dog had to be in a crate when traveling to and from the resident's home and the common areas.

HUD's charge also alleges that the condominium association billed the tenant's daughter a \$100 fee because she walked her mother's assistance animal in the development's common areas. The Fair Housing Act prohibits housing providers from denying or limiting housing to persons with disabilities or from refusing to make reasonable efforts to accommodate handicapped residents. "Subjecting someone to different residency requirements because they use an assistance animal prevents that person from fully enjoying their home and is against the law," Anna María Fariás, HUD's Assistant Secretary for Fair Housing and Equal Opportunity, said in the

release. She added, "Condo associations have an obligation to comply with the requirements of the Fair Housing Act when it comes to reasonable accommodations and HUD is committed to ensuring that they meet that obligation."

The case came to HUD's attention when the handicapped resident's daughter filed a complaint alleging that the condominium association refused to waive its requirement that residents transport pets in carriers when in common areas. Because of the resident's mobility impairments, the daughter was primarily responsible for walking the dog. "Rules that limit access to common areas for persons with disabilities who need an assistance animal violate the Fair Housing Act," J. Paul Compton Jr., HUD's General Counsel, said in the release. "This charge represents HUD's commitment to ensuring that persons with disabilities are allowed to fully use and enjoy their homes."

If the administrative law judge finds after a hearing that discrimination has occurred, she may award damages to the complainant for her loss as a result of the discrimination. The judge may also order other injunctive or equitable relief, as well as payment of attorney fees. In addition, the judge may impose civil penalties to vindicate the public interest.





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Kurt D Kelley, J.D., President



Investment rental homes can generate nice income, but when a rental sits vacant, it can also quickly drain your bank account. I recently lost a long-term tenant. As I walked through my empty rental, I realized it was a far cry from the turnkey condition it used to be. Everywhere I looked, something was missing, broken or damaged. Since I needed to get this property in rentable condition as soon as possible, I made a list of repairs, established a budget and created a timeline.

Rehab for Your Sub Market

Sometimes one's tendency is to attempt to make a rental home the home you want for yourself. And then lease that home for more money than others in the same submarket thus increasing your Return On Investment. Granite counter tops, walk in closets, wood floors... However, remember, that every sub-market has its limit. If your market rent for a three bed, three-bathroom rental manufactured home is \$950/month, you'll find you will be hard-pressed to get more than \$1,200/month no matter how nice and new your unit is. Renters that can pay more are likely looking in other submarkets.

Kitchen

A realtor once told me that kitchens and baths sell houses. My rental home kitchen was definitely due for a makeover. The cabinets were grimy and dated. Since my budget didn't allow for replacing them, I opted to refinish them. I had refinished kitchen cabinets in the past, so I was comfortable taking this project on myself.

If you're up for the task, there are plenty of resources on how to refinish kitchen cabinets. Consulting your local paint store for tips and products is a good idea. I also wanted to replace the white tile countertops, since pieces had chipped off. I received a few estimates on the cost of more durable surfaces from Lowes as well as an independent stone supplier. The prices were comparable, but Lowes would not be able to install it for a few weeks and the stone supplier required me to go pick out stone from their warehouse, which would further delay my work. Thus, I decided to hold off on any decisions until the cabinets were done. The wait turned out to be fortunate. The old brown cabinets were now a calming gray with new, brushed steel hardware, making the white tile countertops look pretty good. I ultimately kept the existing countertop and just replaced the broken tiles. This resulted in significant savings.

Bathroom

The three bathrooms were in decent shape, but a bathtub had a hole in the side of it. This was troubling because of concerns about resulting water damage. I thought I would have to replace the whole bathtub. Factoring in labor, disposal, plus the cost of a new unit from a home improvement store, it was going to cost a few thousand dollars. I mentioned this to a friend who works for a commercial property renovation company, and he told me to call a bathtub refinisher instead. For a few hundred dollars, the bathtub refinisher came out and repaired the bathtub, making it look brand new, and also refinished the white porcelain kitchen sink.

Paint

The walls needed new paint. I also wanted to update the out of date color. Deciding on the right color for your walls can be a chore. However, thanks to apps like ColorSnap you can virtually paint your walls. It allows you to preview what your newly-painted room might look like. It's simple. Upload a picture of your room and pick out a color. With a few clicks, you can see what your room would look like with that paint job. I settled on a neutral beige that would be easy to maintain and would appeal to most potential renters.

I considered saving money by painting some of the rooms myself, but when I got quotes from paint contractors, it made more sense to leave it all up to them. They would work faster if they were doing it all. The paint contractors I contracted were referred by a friend. According to the National Association of the Remodeling Industry (NARI), personal referrals are the most common way to find leads for contractors. NARI recommends getting leads from friends, neighbors, lenders, real estate agents, and material suppliers. The pros I hired were able to get the job done ahead of schedule and for less than I had initially projected.

Flooring

Because of its poor condition, I had to replace the laminate flooring in the high-traffic areas as it had seen better days. But after looking it all over, I ultimately decided to replace all flooring. This sped up the painting since the painters did not have to worry about protecting it. The previous tenants had pets. When they moved out, they tried to return the home to a decent condition and had the carpets cleaned and treated for pet odor. However, the smell still lingered through the unit. I attempted to do spot cleaning since the carpet was only a

Rehabbing a Rental Property: 5 lessons Learned Cont.

couple of years old, but it didn't help much. Thus, I reached out to big names like Home Depot and Lumber Liquidators. I also got a referral from a small local flooring company. The local company offered fewer options within my budget, but they were able to schedule the job and get it done sooner than the bigger companies. My original plan had not included the expense to replace all flooring so it set my budget back a bit. However, eliminating any traces of pet odor is critical to renting the home faster. I thought it would be worth it in the long run.

Once all the work was finished, the rental home looked and smelled like new. Thanks to the updates the unit was rented within a week of hitting the market.

Rose Fitzpatrick is a rental home owner and operator in Texas, who also holds a full time job working for a bank and does some of her rental home rehab herself.



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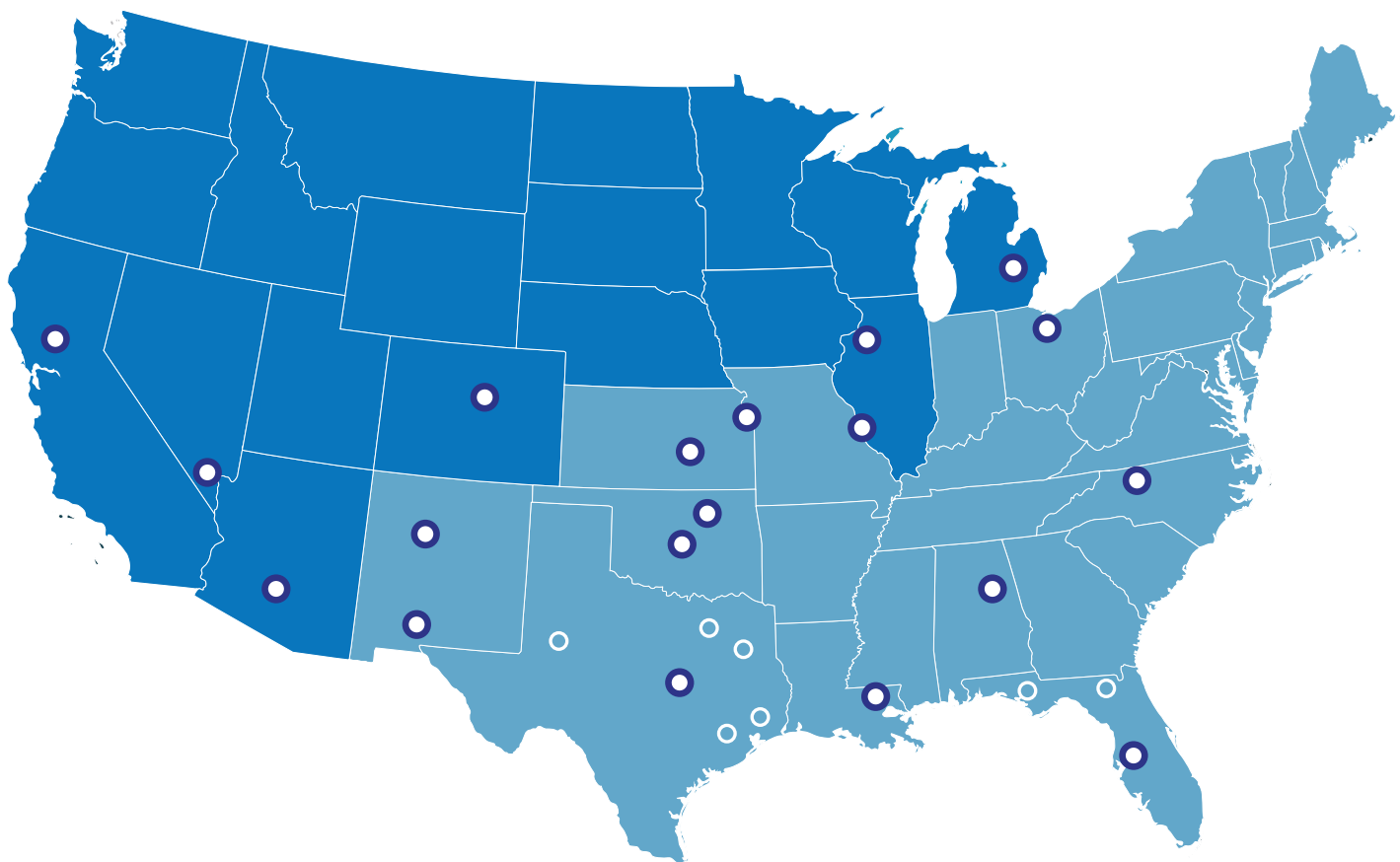


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Michigan Manufactured Housing Association Presents Awards to 6 Exceptional Members

Industry members recognized at annual conference in Novi

The Michigan Manufactured Housing Association (MMHA) presented its 2018 Member Awards on October 11 at the annual conference at Suburban Collection Showplace in Novi, Michigan. The awards were presented by MMHA Board President Richard Winkelman:

The **Best Model Home Staging** award was given to HomeFirst/Brookside. HomeFirst/Brookside's entry showcased one of their brand-new model homes that is contemporary, trendy and truly comparable to a stick-built home. Danya Mallad accepted the award.

The award for **Best Community Event or Activity** went to Highland Greens and M. Shapiro Management Highland Greens organized a "back to school" raffle for all elementary-school-aged children within the community. They managed to make every child who entered a winner. Over 50 backpacks were given away, filled with school supplies. The award was presented to Debbie Robbins and Jeannie Barrett.

Sun Communities of Western Michigan was awarded **Best Member Sales Event or Activity**. Sun Communities held open house events at six different communities in Western Michigan and promoted them using digital marketing. The result was over 9,000 clicks to their landing page, hundreds of in-person community visits, and multiple home sales. Heather Rector accepted the award.

Best Member Website award went to Preferred Homes. The new website for Preferred Homes is www.preferredmobilehomes.com and is an easy-to-navigate site filled with beautiful home photos, floor plans, homeowner testimonials and financing information. Rose Graham accepted the award.

The winner of the newly added category for **Exceptional Customer Service** was presented to Capitol Supply & Service. Capitol Supply & Service has generously donated the installation of equipment and materials to families in need living in manufactured housing communities. These special cases were brought to Capitol's attention by community managers, school districts and news station agencies. The award was presented to Claudia Elliott.

The only award given to an individual is for **Best Community Manager**. The 2018 winner was Kitty Cole of Sherwood Forest. Kitty Cole has been Community Manager of Sherwood Forest in Ionia, Mich., for the past three years. She is a lifetime Ionia resident, as well as former business owner, and an active Chamber of Commerce member. The award was presented directly to Kitty Cole.

The MMHA Member Awards program is designed to recognize the exceptional leadership, marketing and communications efforts of its members, and to enable members to display the award as a point of pride and accomplishment. For photos and more information about these exceptional manufactured housing industry members, please visit www.michhome.org.

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Let's start off with a truism. And that truism, quite simply, is that within the HUD manufactured housing program, the so-called "monitoring" function has grown, expanded and metamorphosized over time, to become something that it was never meant, designed or intended to be, with a private contractor exercising de facto governmental authority over regulated parties. Of course, HUD claims (and protests loudly whenever confronted) that it has the final say, and the final authority on all regulatory matters, and that, as a result, everything is perfectly legitimate. But the reality, for decades - in fact, since the very inception of the HUD program more than forty years ago - has been quite different.

A detailed review and analysis of the last monitoring contract by MHARR (see, MHARR Viewpoint, October 2015, "Monitoring Contractor's Domination of Federal Program Must End"), shows quite clearly that the program monitoring contractor is (and has been) tasked by HUD with the performance of pseudo-governmental functions, and rendering what amount to final decisions on discretionary enforcement matters, often with no substantive involvement by responsible HUD officials at all. And driving the inexorable expansion of contractor functions over time, the inexorable expansion of related regulatory burdens and costs imposed on regulated parties, and, not surprisingly, corresponding increases in monitoring contractor revenues -- has been a de facto, HUD-sustained monopoly on the program monitoring contract by just one entity (the Institute for Building Safety and Technology, "IBTS," previously named the National Conference of States on Building Codes and Standards, "NCSBCS" and Housing and Building Technology, "HBT").

For any of the Trump Administration's regulatory reform agenda to have a real or lasting impact on the federal manufactured housing program, however, the Administration's political leadership at HUD must assert itself, the 40-year-plus monitoring contract monopoly must be ended, and the contracting process itself must be reformed in order to produce full and fair competition, as required by law throughout the federal government. Sadly, though, after a seemingly promising start, concern is growing that this particular aspect of "draining the swamp" could be starting to backslide in the wrong direction - unless, that is, the entire industry and consumers take action to stop the slide.

Why is the monitoring contract so important? Well, the Trump Administration and Secretary Carson have taken a number of important steps to start the process of reforming the federal program, and to bring it back to what Congress and the law - particularly the Manufactured Housing Improvement Act of 2000 - designed it to be, a preemptive program of minimum

performance-based standards and uniform enforcement that protects consumers while simultaneously preserving, protecting and advancing the inherent (i.e., non-subsidized) affordability of manufactured homes. At MHARR's specific urging, the Trump Administration, in late 2017, replaced and re-assigned the over-reaching career administrator of the HUD program, Pamela Danner. Shortly thereafter, again as advanced by MHARR, HUD began a "top-to-bottom" review of all existing (and proposed) HUD standards, regulations, and pseudo-regulatory actions (such as "Interpretive Bulletins" and "Field Guidance" documents), incident to concurrent rulings by the Attorney General that the Justice Department would not undertake enforcement actions in federal court based on such "pseudo-regulatory" guidance documents.

Both of these actions represented necessary first-steps to begin the process of restoring the rule of law - and common-sense - to the federal program, consistent with the express statutory purposes of the 2000 reform law. The job, though, does not end with initiating a "process." "Process," in and of itself, is not a goal. Positive, substantive change within the program and for both the industry and its consumers is the goal. For genuine progress, the program administrator's position, for example, must now be filled by a non-career appointee, as required by the 2000 reform law, and the regulatory reform process initiated under Trump Administration Executive Orders 13771 and 13777 must lead to substantive action by the Administration to repeal (or significantly modify) layer-upon-layer of unnecessary and debilitating regulations, interpretations, and pseudo-regulations, developed and imposed over time with little or - in most cases - no consideration for their impact on the cost of manufactured housing or the ability of lower and moderate-income American families to purchase a manufactured home.

As important as those steps are, though - and ultimately could be with proper followthrough - real, on the ground, and lasting change for the federal program will require a fundamental shift in the way that the program does business with respect to the monitoring function, including the monitoring contract itself, the nature and scope of the monitoring function, and ultimately, hiring a new program monitoring contractor after 40-plus years of de facto monopoly.

That de facto monopoly, for which MHARR has been unable to find any parallel anywhere else in the federal government, is the most compelling and probative evidence that the HUD monitoring contract process itself is entirely dysfunctional. While repeated monitoring contract procurements at HUD, since the inception of the federal manufactured housing program, have allegedly been "competitive" in nature

A HUD Monitoring Contract 'Bridge to Nowhere' Cont.

(as defined by federal law), and have been conducted as allegedly competitive procurements (i.e., without the formal protections required by law for noncompetitive, sole-source contract solicitations), the facts show this to be patently false. Instead, based on HUD contract "award criteria" that, through successive solicitations, have been tailored to match the "experience" of the one and only entity to ever hold the contract - i.e., NCSBCS/HBT/IBTS - the monitoring contract procurement, through its entire history, has been a de facto sole-source procurement without any type of meaningful, actual or legitimate competition.

Indeed, on the one occasion when a competing bid, lower than that of the one-and-only monitoring contractor -IBTS -- was submitted, nearly three decades ago, by a highly-respected and credible code organization (i.e., the former Council of American Building Officials - "CABO" -- now, the International Code Council - "ICC"), HUD, rather than awarding the contract to another entity, initiated a "best and final" round of revised offers, which ultimately led to an award, once again, to the one-and-only monitoring contractor -- IBTS -- (as shown by

documents grudgingly provided by HUD to Congress after multiple requests by former North Carolina Senator Lauch Faircloth).

This contract manipulation and the resulting domination of the program over the course of its existence by one entrenched, self-serving contractor, has had a ruinous effect on the HUD manufactured housing program, the industry itself and consumers in particular, as the purchase price of manufactured homes has needlessly been inflated by unnecessary, unjustified and baseless expansions of regulatory compliance burdens at the initiative and behest of the entrenched monitoring contractor. Indeed, detailed MHARR analyses have demonstrated how HUD payments to the monitoring contractor have ballooned over the past decade in particular (to more than \$25 million in the last five-year contract), even as industry production levels have fallen to historic lows and referrals to the HUD dispute resolution system (reflecting unresolved consumer issues in new HUD Code homes) have been - and remain - at microscopic levels, well below 1 % of corresponding industry production over the same period.



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A HUD Monitoring Contract 'Bridge to Nowhere' Cont.

The needless regulatory costs and burdens imposed because of the contractor, moreover, disproportionately impact and harm smaller industry businesses (and consumers of affordable housing) while conversely benefiting the industry's largest producers, which can spread spurious pseudo-regulatory costs over a larger base of production. It should thus be no surprise that the industry and consumers hear little or nothing about this issue from other industry organizations, which are beholden to the support of those larger entities.

Recognizing this as a major structural and policy problem within the federal program -- as a result of education efforts by MHARR -- Congress, in the Manufactured Housing Improvement Act of 2000, attempted to halt this manipulation of the HUD contracting process. Remedial provisions thus inserted in the 2000 reform law by Congress included, among other things, a mandate for an appointed, non-career program administrator, a requirement for "separate and independent" contractors for monitoring and other functions, a narrow and limited definition of the "monitoring" function (i.e., the "periodic review of the primary inspection agencies ... for the purpose of ensuring that [they] are discharging their duties under" the 1974 Act as amended), and a requirement - in section 604(b)(6) - for notice and comment rulemaking and Manufactured Housing Consensus Committee (MHCC) review and approval for all changes to HUD policies, practices and procedures concerning enforcement-related activities.

HUD, though, over the past two decades, has either totally ignored, unduly restricted, or chipped away at these safeguards, effectively neutering Congress' effort to restore standards and accountability to the monitoring contract process. HUD has thus not only failed to protect the industry's smaller businesses (and consumers of affordable housing) from regulatory excesses and abuses, but has actually undermined one of the primary purposes of the 2000 reform law.

Nevertheless, there were indications, in 2017, that HUD, under Secretary Carson, would begin to reform this process and actually conduct a legitimate procurement for the monitoring function. This included an "Industry Day" meeting for prospective bidders in November 2017 and the division of the monitoring contract into design and production monitoring functions. Now, though, there is disconcerting evidence that HUD could be backsliding on this essential program reform. Specifically, MHARR has learned that the last IBTS monitoring contract, which was due to expire in August 2018, instead of being replaced with a new, genuinely competitive contract, has now been extended for (at least) one year through a no-bid, sole-source, so-called "bridge" contract.

As objectionable and damaging as this is in itself, for continuing - on a de jure basis - HUD's addiction to sole-source procurements for this function, the official HUD "Justification

for Other than Full and Open Competition" (Justification Document) for this contract, actually lauds the entrenched incumbent contractor in ways that could indicate that there will be no "full and open" competition for the full-term monitoring contract that succeeds the alleged "bridge" contract. For example, the Justification Document states, among other things: "the depth and breadth of knowledge demonstrated by the contractor [i.e., IBTS] during the performance of the current contract makes them uniquely qualified to perform services during the 12-month bridge. ***The contractor's experience is unique because the contractor has extensive knowledge of working with HUD's national building code (24 C.F.R. 3280) in areas of code administration and enforcement for several decades." (Emphasis added).

Such language - coupled with the no-bid, sole-source "bridge" contract itself - indicate that HUD could well have no intention of conducting a legitimate, competitive solicitation for the next monitoring contract that will "drain the swamp" of 40-plus years of abuse. Indeed, such accolades for the entrenched incumbent could become a self-fulfilling prophecy, discouraging other bidders from even competing for the contract, thereby continuing and reinforcing HUD's multiple violations of applicable law (again, MHARR has searched for, but has been unable to locate, any similar instance of such a 40-year-plus dependence on one entrenched de facto sole-source contractor) and undermining Secretary Carson's effort to reform the manufactured housing program. Indeed, legitimate competition, a new monitoring contractor and a monitoring contract that complies with substantive law regarding the limited nature of the monitoring function, are essential to the successful implementation of any such reforms.

This no-bid, sole-source "bridge" contract is -- and should be -- totally unacceptable to the entire industry, and particularly its smaller businesses, as well as consumers of affordable housing.

If the HUD monitoring contract "swamp" is to be "drained," the time for complying with the law - and finally ensuring full and fair competition for the program monitoring contract -- is, emphatically, now.



MHARR is a Washington, D.C.-based national trade association representing the views and interests of independent producers of federally-regulated manufactured housing.

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Markets corrected sharply last week and the causes were mixed, as are the motives of policymakers in Washington. Please see the attached newsletter.

Fiscal policy has been expansionary. Tax cuts and regulatory easing boosted earnings and stock prices for most of the year here in the U.S. (not abroad, however).

Monetary policy has been contractionary. The Federal Reserve has been slowly and steadily increasing interest rates since 2015.

Until last week, markets were basically ignoring the Fed. They were happy with the tax cuts and the regulatory holiday. Now the markets are coming to terms with the long-term normalization of interest rates by the Fed. Increasing interest rates mean higher borrowing costs for businesses, consumers, and even our government.

Five Areas of Concern

1. The Federal Reserve

The Fed's mandate is to maximize employment, stabilize prices, and moderate long-term interest rates. Right now, employment is full and prices are relatively stable. The problem is interest rates.

The financial crisis in 2008-2009 was a four-alarm fire. The Fed used every monetary policy tool available to fight the blaze. It lowered short-term interest rates to zero and kept them there for several years. It bought trillions of dollars in bonds in an effort to further lower interest rates. The objective was to encourage investors to buy risk assets (like stocks) and provide low-interest rate credit to businesses, homeowners, and consumers.

Having exhausted all its tools, the Fed is relatively unprepared to fight the next fire. Since 2015, the Fed has been rebuilding and reloading its monetary policy tool kit. It has been slowly raising short-term interest rates and selling the bonds it bought during the crisis. These moves will not be good for risk assets and borrowers, but they are necessary if the Fed is going to be able to respond to any future economic crisis.

The Federal Reserve is poised to hike rates further as the U.S. economic performance remains strong. They have been telegraphing this to the markets for months. Chairman Powell says these rate increases are "data dependent," which means that the Fed will continue to monitor the economy closely so they don't let rate hikes tip us into a recession. Theoretically, if U.S. economic momentum slows, the Fed could pause further increases, but macroeconomic policy is hardly an exact science.

2. Inflation

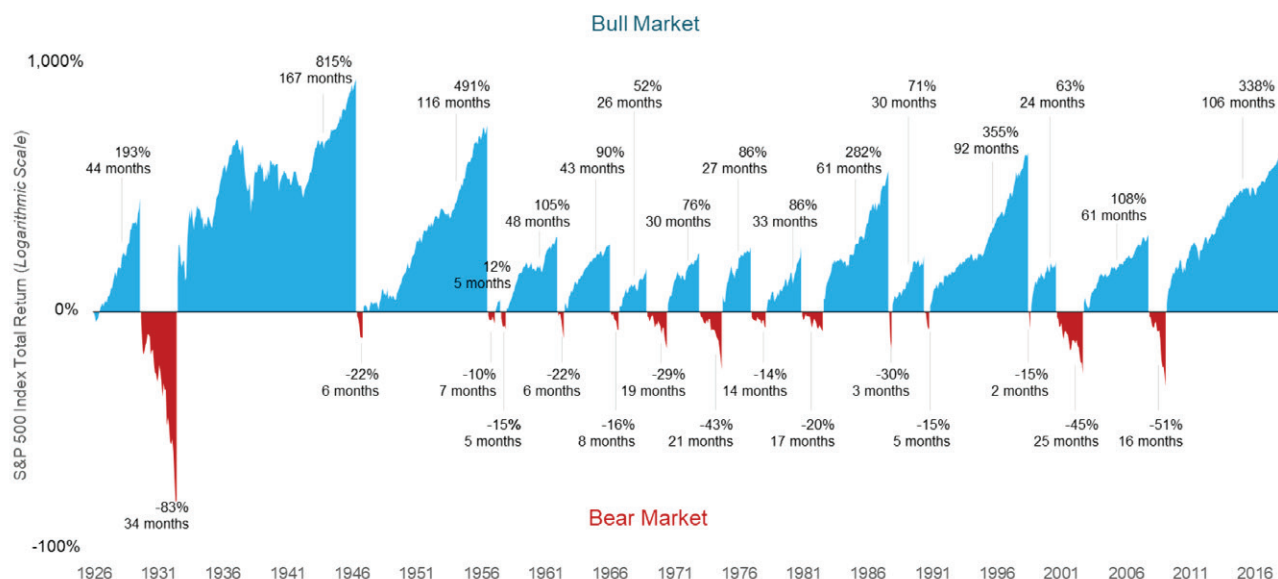
Right now, inflation appears to remain benign and within Fed targets. This will make it easier for the Fed to consider pausing further increases. However, if inflation starts to accelerate, the Fed will take this as a sign that the economy is overheating. They will keep raising interest rates to get this under control. This will tend to slow down economic growth.

3. The Deficit

The deficit has recently blown up, and this has long-term ramifications for the U.S. economy. According to the Congressional Budget Office, the deficit for fiscal year 2018 will be \$793 billion. The deficit for fiscal year 2019 is projected to be \$985 billion. We will be financing this deficit in a higher-interest-rate environment. So, our borrowing costs will be higher. Proponents of the tax cuts say that they will pay for themselves by strong economic growth alone. We will see.



Market Correction – Five Areas of Concern Cont.



*A History of Market Ups and Downs, S&P 500 Index total returns in USD, January 1926 – December 2017
Using a 10% threshold for downturns, Source: Dimensional Fund Advisors*

4. The Trade War with China

The trade war with China poses a risk to global growth. The Trump administration is betting they can force the Chinese to make concessions to trade fairly and grant protection to U.S. intellectual property. Markets are starting to get jittery the longer this goes on. History has shown repeatedly that tariffs hurt economic growth.

5. The Business Cycle

We are currently in the longest economic expansion since World War II. Neither the Fed nor the president can abolish the business cycle – it's bigger than they are. The U.S. economy will turn over at some point and our next recession will be here. Most respected economists predict this will happen in the next 1-3 years. No one knows for sure.

As you can see, market downturns are a part of the long-term investing experience. But so are the expansions, which dominate and overwhelm the downturns over time. Keep this in mind as we navigate rougher seas ahead.



Austin Lewis is a wealth manager at Lewis Wealth Management, a firm he founded in 2010. He focuses on providing wealth management solutions to a select number of affluent clients in a boutique setting. He is a CERTIFIED FINANCIAL PLANNER professional.

Austin has over 25 years of experience in advising clients as a banker, attorney, and financial advisor. Austin started his career as a business banking officer with Wells Fargo Bank. Upon graduation from law school, Austin practiced law for nine years at two prestigious San Francisco law firms: Gordon & Rees and Craigie, McCarthy & Clow, where he specialized in advising businesses on litigation and transactional matters. When Austin returned home to Colorado in 2001, he served as senior in-house counsel to two Colorado companies: Graphic Packaging and Qwest. Since 2005, he has been advising affluent clients on all their financial matters.

Austin received a B.S. in Business Administration from the University of Colorado in 1986, an M.B.A. from San Francisco State University in 1989, and a law degree from Marquette University in 1992.

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Below you'll find a link to a "Ted Talk" we found interesting. It is essentially about the unique value of manufactured home living, though neither pro nor anti manufactured housing industry. Prof Sullivan discusses the land use challenges and restrictions which limit manufactured home communities as an affordable housing option.

[View Ted Talk](#)



*Dr. Esther Sullivan is an Assistant Professor of Sociology at the University of Colorado Denver. Esther's research focuses on spatial inequality, legal regulation, low-income housing, and the built environment. Her book, *Manufactured Insecurity*, examines housing insecurity in land-lease manufactured housing communities. Currently, Esther and colleagues at the University of Colorado Denver have joined researchers at Texas A&M to produce the first comprehensive and comparative analysis of the exposure and recovery of the mobile home park housing stock of a major metropolitan area following a natural disaster (using Hurricane Harvey and the Houston metro area as a study site). ESTHER.SULLIVAN@ucdenver.edu*



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