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Marty's News & Notes

Featuring news about the Factory-Built Housing Industry
 And all the news that's fun to read...

The Chicago Meeting

It's not enough that we've run into the greatest industry slowdown in its 60-year history, but internecine fulminations has jostled the industry with an event that could have had serious repercussions. (And may yet.) I refer to the early June meeting in Chicago attended by the major and minor homebuilders of the industry. In the words of one attendee, it was the greatest accumulation of MH builders in one room he's ever seen, and this guy is a veteran.

Who was there?

The meeting was attended by most of the "Imposing Few" of HUDCode-dom, the high royalty of the industry. They were all representatives from the companies building our homes, and members of both MHI and MHARR attended. Noticeable by their absence were Danny Ghorbani of MHARR and MHI's Chris Stinebert. Strange, you say, that a high level meeting like this would be held with Chris and Danny not in attendance? I think that is an accurate assessment, and as the word of the meeting started to spread shortly before the event, most thought it peculiar they were not invited. I might add that no other association personnel, state or national, were supposedly at the meeting. At least that is my understanding.

Now, full disclosure here. I was not at the meeting. I was not invited. I may confuse some of the details in my report to you here. But I have spoken with enough people attending the meeting so the general gist is correct.

Why?

Oh, you are asking why the meeting was held? Yes, it's a fair question and it certainly piqued my interest as well. Ostensibly, the meeting was at least partially advertised as an event to review the plans for the Consumer Satisfaction Index (CSI) survey now being conducted by J. D. Powers. Those of you more interested in making a living than knowing industry insider stuff may not be aware that MHARR, as an association, has little love of the CSI. Confident in what government can do "for them" they believe the 2000 Home Improvement Act (HIA) will save their chestnuts.

The MHI contingent, seemingly a little more sanguine of government's role in this matter, seems to believe the dispute resolution of the HIA is important, but our problems seem more imposing than simply having three parties arguing with each other to determine home installation fault. In the event of an installation dispute

"..MHI seemingly has accepted that our future lies in what we can do to and for our customers."

the builder, retailer and installer will all meet to try to establish blame. Never mind that it would be best if only the homeowner and builder were involved so problems could be handled in an expeditious manner.

But the lengthy negotiation process over this act, (it's still not effective, and not all the fault of the industry,) means that based on MHI shipments figures for the years before the act is operative, (2000 – 250,000; 2001 – 193,000; 2002 – 168,000; 2003 – 131,000; 2004 – 131,000; 2005 – 135,000), another one million plus new HUD-Code homes have been delivered with many disputes arising from those deliveries' home installations.

Were some properly handled without the act? No doubt they were, but since installation is frequently named as one of the industry weak points by consumers, many weren't. Methinks it might have been better had we unilaterally accepted a comprehensive industry dispute resolution rather than to be dragged kicking and screaming to accept the act, one million homes later, with a process that essentially leaves the consumer out.

The death blow?

But I digress. So the "big boys" are in Chicago ostensibly to discuss the CSI and presumably the HIA figures into the discussion and then (stay seated), there is an agenda item that says something like, "should the HUDCode Home Builders, in order to speak with one voice, form a new "Builders Only" trade association, or all join MHARR and let Danny Ghorbani speak for the industry, or do nothing and agree on industry positions as they arise?" Again, this is Marty's wording. I have no copy of the written agenda, but as usual, I did speak with a significant number of the people involved there. I think the major points are accurate in their broad outline. And I'm told the meeting was fairly ad hoc, and loosely structured.

Are you turning blue waiting to see if MHI still exists? You certainly can't view this agenda without the thought that if a concurrence of the builders had opted to let MHARR speak exclusively for them, or form a new association of their

own, this could have dealt a mortal blow to MHI as we know it. A killing blow, you ask? I don't know, but the builders' dues are what mainly fuels MHI finances, which allow an already seriously downsized MHI to exist. Removing the enormous financial contribution from the builders' dues would have been problematic at best, disastrous at worse. If you care, ask around for the facts of the financial impact. Chris Stinebert would be a good start.

I guess the outcome, for those of you who like MHI, is comforting for the moment. I'm told that most of the builders were disinclined to leave MHI to either select MHARR as their sole representation (most MHI builders already belong, but not exclusively), or to form a new organization. Would the MHARR-only builders join MHI? I don't think so! There was some, but very thin support from MHI members to allow Danny Ghorbani to speak exclusively for the industry. MHI members made it clear that when MHARR purports to speak for "the industry", it can only be with the direct understanding of MHI on any given position.

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One

voice

Would it be better, as some countered, that the industry speak with one voice. Well, yes, that could be better, assuming the position being taken is in accord with moving forward to bolster the industry's standing with our regulators and the general public. That seems to be where the two associations differ. MHARR seems to believe the industry's future lies with what government can do to and for you. MHI

seemingly has accepted that our future lies in what we can do to and for our customers. The divergence of the role of the CSI amply demonstrates the MHI perspective. The fixation of MHARR on the HIA clearly shows their bent. Speaking with one clear voice with this prevailing dichotomy could be challenging.

One thing that did seemingly come from the MHI faction is a resolve to understand government regulations, proposed and enacted, far better than is now the case. There is a feeling that perhaps too little focus has been paid this area by MHI. Certainly MHARR and Danny Ghorbani have a particular talent in comprehending government regulation and its possible implications for the industry. That is widely admired.

Outcome

A near death experience for MHI? Probably not, as the MHI builders comprehend the value of an association representing all of the industry segments, allowing it to be the only association which can truly speak for the whole of the industry segments. MHARR makes no attempt to speak for any segment of the industry other than the builders, nor can it claim any right to do so. Granted, it's not easy to determine an MHI position on some points because of the disparate interests from the many different segments. Still, once a position is reached, it is the closest thing to an "industry voice" as exists.

This does not include one voice speaking for the builders, where there are two separate associations, MHI and MHARR. I guess this is where this all started, with the referenced outcome herein described. Does this settle the point? It does for now.

Post Script. I'm told that the challenge at present between the two associations is to agree upon what they agreed upon in Chicago.

MARTY'S RULE NUMBER ONE

"Watch what's happening, not what people are saying."

The call came in from the Wall Street Journal Reporter. He had heard reports about the enor-

mous demand for our housing in the Gulf Coast states, compliments of Rita/Katrina and many other hurricanes whose names I've forgotten. Would this lead to a big industry resurgence?

I asked where he had heard all this, stalling for time before I answered. He had been speaking with numerous people in and out of the industry. The chatter was full of the *possibilities* of factory-built housing, but little of the reality. Again, we were selling the sizzle, but a half pound short on the steak.

Whither we go

In preparation of this newsletter and the MHL Shipments Contest I had recently reviewed how 2006 was progressing. In a nutshell, the last of the FEMA homes delivered in the early part of this year had initially driven the annual shipments pace over the 145,000 range, but sagging deliveries since had slowed the count into the 135,000 shipments area. Without some change in demand, a scary thought was building that 2006 was about to be more of the same seen since 2003. Not good unless you think a small industry is good industry.



dustry

"Roofs, anyone?"

boosting

In-

Yah, but Marty, forget the industry reality, what's so wrong with being an industry booster and talking up the promise rather than the reality of factory-built housing recently? Nothing. It's done with regularity in idle chatter, association promotion, and even by various trade publications. You know, advertisers need to be pleased, and I understand the need. Plus one is supposed to be positive. (This rule does not apply to analysts, unless they are shills.)

Accentuate the Positive

You've gotta accent-tcu-ate the positive, eli-my-nate the negative, Latch on to the affirmative, don't mess with Mister In-between. You gotta spread joy up to the maximum, bring gloom down to the minimum.

Have faith or pandemonium's li'ble to walk upon the scene.

(Thank you, Frank Sinatra)

Shipments slowing

With the release of reports of ever decreasing HUDCode home shipments pace by MHI, for the period ending in April '06, every MH analyst is scurrying to lower their predicted shipments total for 2006. The expected MH industry recovery gives little sign of occurring. Since I had forecast only 135,000 home shipments last January for 2006, I do not yet have to reduce my prediction. I still expect the year to come close to that, although the recent declines have the industry worried that we could again fall below that figure. The last few years the annual Non-FEMA shipments have been in the vicinity of 130,000 homes.

The annualized volume presently is in line with my market analysis prepared in the early part of the year for planning purposes. More importantly, with a seemingly never increasing volume of sales, what are we to conclude about the near future of HUDCode housing. A little retrospective and quantification seems in order.

Trailer, Mobile or Manufactured

First, a matter of definitions. When I speak of HUDCode housing I am describing homes known as "manufactured homes" built since 1976, after the federal law regulating their construction became effective. The HUDCode is a federal building code which preempts any local building code. This is its great strength and one zealously guarded by the industry now. A very peculiar fact considering how the industry strongly resisted the implementation of the act in the 1970's. But then, this is a now common occurrence within the in-

dustry in a number of instances, strongly resisting any regulation and then after implementation, frequently finding great benefits to it and to the consumer. Once in force they then zealously guard it. You'd think there could be a lesson for the industry there. But, no, every regulation is fought to the death. Remember the wind tie-down standards in Florida? Fought it tooth and nail before implementation. Quickly took credit for it when the hurricanes arrived.

"Trailers" or "mobile homes" are terms the industry views as archaic, but are not viewed as such by its customer base. Both terms are commonly used by consumers, the public and the media, much to the chagrin of the industry, which believes terminology will trump the lack of the industry to deliver sufficient consumer satisfaction. It's not the homes and industry model which is the reason for the poor satisfaction generally reported with some aspects of manufactured housing. No, it's that consumers and the media do not use the right terminology. As inane as that sounds, that is the industry line, and perhaps some even believe it.

"Manufactured housing" refers to homes built since the HUDCode began in 1976 and "mobile homes" refers to homes constructed prior to that. "Trailers" is a term used to refer to structures made to go over the roads, such as travel trailers or very elderly, 8' wides, constructed for permanent or seasonal residency, in the period mostly before 1965. At least, that's how Marty sees it.

The big years

Annual industry volume in the 1960's grew very rapidly, starting at 104,000 homes in 1960, and rapidly escalating to 412,000 homes in 1969, a 400% increase, incredible by any measure. With a population base of fewer than 200 million Americans, the actual homes built and shipped in this period, up through 1973, was the high water mark of the factory-built housing industry. It then began a long decline, which has yet to arrest. (Chilling.)

Starting in 1970, and through year 1973, saw mobile home shipments of 401,190; 491,710; 575,940; and 579,960, before a crash in 1974 to 338,393, and to 212,690 in 1975. This was the first 65% industry decline and is being mirrored percentage-wise by the present shipments decline since the last top in 1998.

While the middle 1970's decline was vicious, few at the time correctly understood that the 50% share of new housing starts enjoyed by the industry then was to be its apex, never again to be remotely equaled. This compares with a housing-starts share for MH of about 7% presently. Lo, how the mighty have fallen. [Marty's rule Number One: Watch what is happening, not what people are saying. Sorry, Frank]

Far Less

The rest of the 1970's meandered, getting back to 276,121 homes shipped in 1979. The 1980's saw a volume high of 295 thousand homes and as few as 198 thousand homes. This all with a far smaller population base than we presently enjoy. Our new home shipments numbers today, on a population-adjusted basis are far, far lower, as our population recently reached 300 million people. **To equal today the homes shipped in 1973 would require over 800,000 homes in a year.** We're a bit shy here, Virgil.

We're ba-ack

The 1990's shipments started slowly, 1991 seeing the then low volume shipments of 170,713, the lowest since 1963. This was coming off the RTC period with many banking and funding troubles in the industry as S&L financing dried up and the industry was again highly challenged for retail lending liquidity. But that period was short lived, as the industry, fueled by asset-backed-security fundings started a spurt of faulty lending which drove sales. Led by GreenTree Financial/Conseco Financial and others, a scourge of defaults, repossessions and losses brought the industry to its knees. This came after a rapid run-up to about 350 thousand home shipments annually for 1994 through 1999. Remember, the industry tracks shipments, not sales. It has no good method to track national sales, thus it failed to see the huge inventory build-up occurring from 1997-1999. (Some would say it could have been seen, but there are none so blind as those who will not see.)

Not for long

The market then crashed in 2000, dropping to about 130 thousand home shipments in 2003, 2004 and 2005, if one discounts any homes sold to FEMA to house hurricane victims. Many in the industry had expected better sales performance in 2006, but the early shipments numbers, through April of 2006 are now cause for serious concern that we may face the fourth year in a row at about 130 thousand homes. All this, even as housing in general has enjoyed its greatest run ever in the last few years. It makes the problems at MH seem even more difficult to solve. It also puts into question the beliefs of many that as interest rates increase and conventional housing slows, we should profit. Both happened, no sign of it yet.

Mods to the rescue!

Many in the industry had thought and touted that modular housing would grow by strong double-digit increases in the last 10 years to offset loses at MH. Some in the early 2000's were even forecasting the death of HUDCode homes, to be replaced by mods. While modulars increased from about 25,000 homes in 1994 to 43,100 homes in 2005, growth has recently stopped entirely, the first quarter of 2006 seeing a decrease of 7.1% in mod shipments. This is all out of context with the industry rhetoric of great growth for modulars and sends another gloomy message about the industry potential. Right now, for whatever reason, it is not "happening".

Fact or fantasy

What does the true state of affairs portend? That absent some unknown and unknowable event or events occurring in the near future, the industry's potential for growth is not very good. At present, and since 1999, only the return of stupid or naïve retail lending money to the industry can be thought to boost its performance to previous levels of shipments. The long-term average shipments since 1975 is 250,000 homes annually, a strong 100 thousand homes more annually than shipments in the last several years. If I'm confused here, please send me your data.

Tidbits

Retirement

Industry friend and renown personality, Gub Mix, the longtime director of Nevada-Utah-Idaho Associations will be honored at the Nevada Associating meeting September 14. Gub was instrumental in developing the Las Vegas show, an absolute industry blockbuster, wrote his "From my Soapbox" monthly piece which strongly contributed to the industry conversation, and became one of the true superstars of this industry. More's the pity he is leaving, but his positive impact in so many areas remains behind.

The Census Bureau

is under notice that the funding for 2007 they've had from HUD to capture substantial data about manufactured housing is in danger of defunding: That means no money and no data going forward. Were data for MH readily available from numerous other sources, as it is in site-built housing, then so what? But data for MH is not in abundance. In fact it is very scarce. Without the HUD-financed data reported from the Census Bureau I could have free rein to draw all sorts of off-the-cuff conclusions. Who would know I'm wrong? I would much prefer that the present Census Bureau data collection would not only continue, but be greatly expanded. If they are going to cut funding anything, they should cut much of the data collection for site-built housing, which industry has a plethora of privately provided data and can afford to provide it privately. That is not true in MH; we are neither awash in privately provided data nor we can afford to do it. We are just too small. That's what government is for, not to fund "fat cat" Realtors. The chap in charge of this program is **ronald_j._sepanik@hud.gov**. Please tell Ron we need this program by email. Take the time, it is important to this industry.

Regulation, smegulation

Let's see, as an auto dealer I fought seatbelts, catalytic converters, CAFÉ mileage standards, and airbags. I bought the industry line. Today, as a consumer, I wouldn't buy a car without seat belts, airbags, converters, or the highly improved gas

mileage. Hhmmmmnnnn....

Forty Year Paper

I got a very concerned email from a well-known industry exec who was truly bothered by an FHA proposal to insure 40-year mortgages. He frankly thought it was very bad public policy, since factory-built housing would be included. Here were my comments to him:

I personally have never had a 40-year mortgage. I've had several 30-year mortgages, but never 40. I also have tended to stay in my homes a long time, the last one 28 years. But I did have numerous different mortgages on that home during that period. Again, always either 25 or 30 years. I never could quite see the advantage to 40 years, as the decrease in payment was so miniscule that any benefit was too small for *me* to consider.

With home ownership at high historical levels, the ability of accommodative financing to help marginal buyers to qualify and better buyers to stretch for the home of their choice makes any advantage to be gained, however small, a benefit.

There are four points I can mention which give some credence to 40 year mortgages. There may be others.

1. I am not in the business of making financial decisions for people of majority age, even if I think their making any given decision is not a sound one. In most cases I would allow people to make their own decisions, even though I might view that choice as flawed.
2. Any monthly savings which allows consumers to buy a home of their liking is to be applauded. Thus even if the savings is nominal in my opinion or yours, it could result in a better home at purchase for the homeowner.
3. Since the average mortgage is prepaid through sale or refinance of the home in less than 7.5 years, few homeowners are there after 10 years, and how many will be there for the full 20, 30, or especially 40 years? I dare say less than 1%.
4. We all know from personal experience that mortgages are very difficult to pay for the first 3-5 years,

but are far easier thereafter, as your earning capacity increases. This makes sending extra money to repay the mortgage earlier a direct possibility, *assuming the homeowner wishes to do so.*

It is for the above reasons that I grudgingly would accept a 40-year mortgage program, even though I reject it for my own purposes and would counsel my children the same.

Anyway you slice it, 40-year mortgages are hard to justify purely on an economic basis.

Personal

On a personal note, you've seen a picture of my dog Felix, the Rules Committee Chairman of the MHL Shipments Contest Committee. I now take the opportunity to show you a picture of my new grandson, Cooper Avery Lavin. His father is a lawyer and he looks like one too.



Cooper Avery Lavin

The MHL Annual Shipments Contest

If you've plowed this far, you know the HUD-Code shipments are not setting any records. Homes going out remain in a funk, little spark evident so far.

Again, in consultation with my various shipments consultants and spinning of the roulette wheel, it looks like the total home shipments, including those sent to FEMA for the year will be in the 135,000 home range. The net shipments, without FEMA, is in the 131,000 home range.

For the "all-in" figure, **Greg Garr, the General Manager for Country Estates Housing in Virginia** was the contest leader with 134,843 homes. In second position was a familiar name.

Peter Scherer, Origen Financial President was at 134,567. Scherer won the 2005 Shipments Contest. How in hell does he know?

For the normal deliveries which are homes shipped for retail sale, for non-FEMA use, the pace is at 131,000. **Gary Wegner of Cross Roads Home Sales** is in the lead with 130,714 homes predicted. **Rich Ray, the sharp CFO at 21st Mortgage, the Berkshire-Hathaway unit,** was runner-up at 131,621 homes.

And that's the way the shipments are preceding. I'm keeping a close eye on John Diffendal, the B, B & T stock analyst who started the year at 155,000 shipments predicted. John recently dropped to 140,000 homes and his newsletter gave ample warning that dropping it to 135,000 homes was a possibility unless action heats up. John is pretty sharp and this reversal simply shows the unexpected lack of activity.

The final point you might consider is that were it not for elevated shipments activity in the Gulf Coast states, propping-up these anemic figures, there is a general reduction in shipments in many of the states that have resisted the complete collapse of sales the last few years. A reading of the MHI shipments by state and region show substantial deterioration. Mercy on us.

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