

MARCH 2006



Martin V. Lavin

Marty's News & Notes

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

First of all, an apology for a late deadline. I had new ball joints inserted in my left hip on February 24th and my stamina hasn't been at peak. I'll do better in the future.

CONTESTS, CONTESTS

Inside this issue:

CONTESTS, CONTESTS 1

The 2006 Contest 1

Notes to contest predictions 2

Contest Results for 2005 3

CONTEST PROGRESS 4

NY TIMES & TRAILERS 5

A READER'S VIEW 5

BASEBALL GAME 5

LAS VEGAS COMETH 5

FLASHBACK 5

Let's quickly review the results of the predictions industry members made in early **2005** for that year's MHL Corp Annual HUDCode Shipments Contest. The average shipments number predicted for 2005 was **132,443 HUDCode homes.**

Clouding the HUD-Code shipments numbers in recent years has been the homes purchased by FEMA to house those unfortunates who lost their homes to hurricane and flood damage. With the spate of disastrous hurricanes in the last few years homes sold to FEMA has totaled from just a few thousand, to around 6,000 in 2004, and a whopping 21,500 in 2005.

I do not believe that most people predicting shipments in the recent

MHL contests have really been able to take FEMA homes into serious account. Other than a wild-assed guess, how would you know? I have viewed most shipments predictions coming in the last several years as non-FEMA home shipments. Certainly for the 2005 contest, who would have thought FEMA would purchase 21,500 homes shipped in the year?

Viewed in this manner, the industry consensus has been pretty accurate. Witness last year's (2005) average prediction of 132,443 homes and actual non-FEMA shipments of 130,622. Not too shabby.

The previous year (2004) was not quite so prescient, with contest consensus at about 139,063 homes and actual non-FEMA at ap-

proximately 125,000 homes. Again, very close percentage-wise from actual results, which was a total of 130,802 homes, including FEMA home shipments.

Remember that a "recovery" year shipments' increase of 9%-21% has occurred in the past. That means the increase from the low year of the cycle to the first up year has averaged an increase of 12-15%. In the past this has meant increases of 20-30,000 HUDs in one year, and even more at times.

Taking into account the muted contest predictions of the last few years, one thing is certain; the industry consensus did not see a roaring back of home volume for the industry, and non-FEMA volume

"..the industry consensus has been pretty accurate."

certainly followed the industry consensus. I'd call that a pretty accurate understanding of where the industry was and realistic expectations by most contestants. While there were a few "fliers" both too low and too high, most predictions varied less than 5% from the final number. Pretty impressive.

To put this in perspective, one of this year's contestants, a Vice-President of planning at one of the industry's well known companies, commented with her 2006 shipments prediction, that after several years of trying to predict an annual HUD home shipments number, their company had given up. They could find little scientific basis for making that determination. (You might watch the MHL Corp Contest consensus!)

Like John Diffendal of B, B and T, the MH analyst, and Tom Beers, MHI economist, our contest shipments consultants, you can use all of the figures, trends and charts you want, but even non-FEMA shipments predictions finally come down to an educated, gut reaction guess. And I suspect it will continue as such.

When we factor in the FEMA homes, then we really reach the realm of "reading thrown bones", not withstanding rumors of a computerized hurricane prediction model's existence. If either Beers or Diffendal are using such a tool, they've not admitted it to me, although both are clever enough to do so on the Q.T.

The 2006 Contest

So what are we to think of the 2006 predications which have

come in, the contest closing on March 8, 2006? Well, to begin with, we have now observed that the last few years has seen the consensus prediction average being pretty close to the actual non-FEMA number. This year's entries indicated the very slightest bias upward with an average of **131,299 homes** as the non-FEMA number. I also included as part of the contest, a total homes shipped this year to include FEMA homes, and many did take the opportunity to enter both the "normal" home shipments, which means no FEMA homes, and a second prediction which was for all HUD homes produced, which includes FEMA. The average total home shipments, including FEMA is **143,018**.

Some just sent a prediction of '06 home shipments without distinguishing which part of the contest they meant to enter. After consultation with Felix Lavin, the contest rules chairman, he ruled that any predicted figure of home shipments sent in and not clearly labeled will be deemed to be "all homes" shipments including FEMA. A quick review of those numbers confirms that most people undoubtedly meant that to apply.

Notes to contest predictions

Let's look at some of the entries and comments made this year.

I don't know whether **Joe Stegmayer, the CEO of Cavco Homes** talks with **Kevin Clayton, the Presi-**

dent and CEO of Clayton Homes, but they were within 650 homes of each other at about 142,000 homes, without any FEMA homes. A couple of pretty good minds believe this is going to be about a 10% up year in 2006. I know few who wouldn't take that as acceptable.

By the way, as an aside, I read **Warren Buffett's** 2006 letter to his shareholders and others and he mentions Kevin C. He remarks that in a "very difficult market" Kevin made a lot of money and did an unusually good job of running that large enterprise at Clayton Homes. Fabulous accolades for Kev from an investing legend and in my opinion, remarks well earned and deserved.

The contest optimist for the year was the quick-minded **Carolyn Rolfes of Potter Hill Homes** in Cincinnati at 194,864 shipments. Carolyn's developments around Cincinnati are what you'd like all factory-built housing to look like. I know of none who wouldn't love to see Carolyn run away with the prize this year.

The pessimist, replacing J. Michael Stutts, former grinch with the low predictions for both '04 and '05, is **Chuck Ladd of Roadmasters Transport**, who at 113,760 homes has replaced Stutts. Chuck was also the low man for all homes, including FEMA, at 123,760. He obviously believes '06 is another huge leg down. I do hope this is one prediction which fails to materialize, but Chuck, ya got me scared, pal.

With some humor, several contestants said the total shipments including FEMA and non-FEMA would be identical. After the CNN

water torture of the thousands of FEMA homes' roofs in the holding yard, the next HUDCode homes FEMA wants to see will belong to someone other than them. Like me, they envisage only a dire emergency, greater than Katrina/Rita before FEMA orders more of our homes. (Is it possible to have a tragedy much greater than Katrina/Rita?)

Greg Darr of Country Estate Housing in Virginia, and **Gary Wegner of Cross Road Homes Sales**, and **Austin Baidas, the Big Guy at Four Seasons Homes** all thought that FEMA was most unlikely to buy *any* FEMA homes for 2006. First, FEMA appears to have a substantial supply stockpiled in Arkansas and other locales. But more importantly, the CNN publicity drumbeat would singe anyone's eyebrows. No one needs more of that.

Want a cute one? **Barry McCabe, the President at Hometown America**, the large community owner in Chicago, was able to cut the figure so precisely that he predicted 138,267.5 homes. I reckon he feels that one floor of a "double wide" home will be shipped and counted under the annual deadline as 2006 comes to an end. Presumably the other floor will count in 2007. No one else predicted that total, so he will not be sharing the prize with anyone.

Peter Scherer, President of Origen Financial is substantially more cautious this year. He predicted 132,109 shipments and 134,567 including FEMA. He predicted 145,678 homes in 2005. Doesn't look like Peter is expect-

ing a blow-out year.

Dan Baxter, Head Honcho at Popular Housing Services, the lender, located in Pennsylvania apparently consulted with Punxsutawney Phil on the 2006 shipments. This smells of Scherer's reputed use of his Hurricane Prediction program for last year. This move has already gone to Felix Lavin, Rules Committee chairman to be cleared as ethical. Felix's favorite movie is "Ground Hog Day" and he says consulting with Phil is not only O.K., but smart of Baxter. We'll watch this one.

There are some optimistic folks out there. **Anthony Di-Marco of Security Mortgage** in Rochester, New York says **148,500 homes**. "Good year." Ooookaay.

We even get retirees playing the same. (you know, you can't live the dream, if you don't play the game.) Our old friend **Dick Matheson** formerly **GE, The Associates, and Origen Financial**, now comfortably retired in the Dallas area, thinks it will be "all in" at 131,150. (Dick, are you sure we can handle that much?)

Cam Lavin, Boy Attorney in Riverside, California, scion of the Lavin Family fortune, (poor bastard), says 128,400 non-FEMA. He thinks interest rate pressure could help the industry. Oh, Cam is a believer in manufactured housing. He is one of the few persons I know who actually lives in a HUDCode home

Let's close up this discussion

with the following thoughts.

Let's look at the last three year' shipments:

2003 - 130,937

(Very few FEMA's)

2004 - 130,802

(About 6,000 FEMA's)

2005 - 146,744

(About 21,500 FEMA's)

At first blush you would think that 2005 was a bounce-back year with an increase of 12% over the previous (down) year. That percentage actually is in line with other bounce-back years of the past. And in a vacuum, in later years, that is how 2005 could be remembered.

I feel uneasy about viewing 2005 as a substantial turnaround year. Yes, better than 2004, even without the FEMA production homes, is a fact. Not by much if we remove FEMA both years, but better. Still, there is a disquieting attitude in the remarks of many of the contestants that we aren't quite there yet. Many thought that more needs to be done.

The industry is moving to restructure itself, if glacially. If you review my last newsletter from February, 2006, progress is being made, but frankly, it needs to be accelerated.

Contest Results for 2005

Let's tidy up the **2005 contest results**, where we can now **proclaim a victor**. With the highest shipments prediction number in last year's contest, of 145,678 homes, **Peter Scherer, Presi-**

dent of Origen Financial was the clear winner, being the closest to the final 2005 shipments number of 146,744, which includes FEMA homes of around 21,500, leaving 130,622 as the "real" home number, considering how many actual shipments there were and the home shipments that could have occurred except for factories building FEMA homes. This means a volume of about 131,000 HUDs has become "normal" over the last three years, seemingly resistant to much change upward.

Scherer, by the way, will get the bragging rights as "**Grand Imperial HUDCode Shipments Predictor of 2005**", a trophy memorializing it, \$100.00 bill to almost have enough to buy a bottle of Dom Perignon, to celebrate and it will be presented to him at the MHI Summer Meeting in front of 300+ adoring fans at one of the luncheons. Yah got to give it to Peter, he was optimistic enough to predict a substantial 2005 increase over 2004 when virtually no one else did so. Ah, those hurricanes.

THE MHL 2006 CONTEST PROGRESS

The new contest has gotten off to a fast start, with many last minute entries, most expecting muted shipments growth. With most early increases coming from FEMA homes delivered in January and February from last year's

contracts, FEMA shipments could be well down this year.

Reviewing the shipments figures shows substantial weakness in many markets, especially in the mid-west, where Michigan's a special basket case, compliments of the auto industry.

I take little solace, by the way, in remembering those lengthy conversations I had with General Motors management about the quality of their product and the lack of value being delivered to our customers, this occurring during the seven years I was a GM dealer. I was hardly unique as most GM dealers I knew had similar thoughts. I guess that may be why I take seriously the threats our industry faces, knowing how difficult it can be to change the industry model, and I note the failure of some in our industry to comprehend the real threat.

Certainly in the late 1970's and early 1980's it was business as usual at GM. I think they may now get it as bankruptcy becomes an ever more inevitable and even attractive option for their salvation.

Returning to MH, John Diffendal, the savvy stock follower at B, B & T, and home shipments prognosticator, recently dropped his 2006 outlook from 155,000 homes to 150,000 homes. Tom Beers, the

MHI economist is at 143-145,000 homes for 2006 shipments, but I heard that on his trip to Vegas shortly, he won't be covering any shipment bets.

I put a lot of stock in the industry consensus, and the MHL Corp Contest predicts lower shipments than Diffendal. Beers and the consensus are pretty darn close. The best that can be said is that most people in the industry do not believe a big year is in store.

So who is in the lead after the February shipments figures were released? It seems as though the annual run-rate for all shipments including FEMA is **143,500** homes, and the non-FEMA rate is about **133,000** homes.

Andrew Tapley of Green Park Financial in Bethesda, Maryland, the big LLC lender, and a pleasant young chap, was almost dead on the normal, non-FEMA homes pace, at 132,700 homes.

At runner-up is **Chris Barrett of Bennett Transport** of Georgia, at 132,132. Chris has been in the lead in previous contests.

In the "all-in" figure, meaning all homes including FEMA shipments, the contest leader was **Brad Waite**, the bright young president of **Land/Home Financial**, in Concord, California, spot on at 143,500 homes.

Following him is **Bob Wolfe**, the friendly LLC owner from San

[Looking for Access to Factory-Built Housing Leaders & Businesses?](#)

Marty Lavin has excellent contacts throughout the industry to facilitate your business or your industry studies.

Call him to discuss it. 802-862-1313 mhlmvl@aol.com

Francisco, just a few steps back at 143,325.

We'll be reporting monthly how this goes.

The New York Times and “Trailers”

FEMA continues to encounter nothing but difficulties in placing the single section “trailers” (New York Times, April 5, 2006), in many locales where people have been displaced by hurricanes, especially Katrina and Rita.

They continue to encounter resistance from “the public” in the placement of our product. I suspect this has more to do with the intended inhabitants of the homes rather than the homes themselves, but the end result is the same. (There is a lesson there for us.)

Still, when these same people go into apartments there appears to be no outcry. Do you continue to think a big time industry image campaign isn't needed? How much damage is being caused the industry by the public perception of the undesirability of our homes and the people who live in them? Even in the southeast states where HUDCode homes have long been king, the noose tightens evermore, constricting our home placements.

The Times article goes on to say, “The disputed trailer park was now history, Mr. Nagin (New Orleans mayor) said. And so for the moment, were all other trailer sites in the city (New Orleans), whose construction the mayor proclaimed ‘suspended’.”

People are living on the streets or in the backseats of their cars, but we can't get our homes placed in circumstances like that, to house people in true distress? Wonder what that means (on the one hand), and what FEMA's appetite for more HUDCode homes will be in the future (on the other hand).

A view from one of my readers

One of my very perceptive readers emailed me shortly before this letter went to press. He expressed my thinking so well that I wanted you to read it as well.

He says: “Marty, I looked over John Diffendal's recent report regarding 2006 shipments. Toss out the FEMA stragglers and it's not looking very good for an upturn.

“Also, I firmly believe we may NEVER get another FEMA order no matter what natural disasters may occur. With all the bad press regarding the homes stacking up in Hope, Arkansas, that may never be used, why would they order from us? I think they will ONLY order Travel Trailers in the future, as they have much less stigma with the local officials. They are small, can be hidden away in the back yard, but most importantly can be MOVED in 5 minutes. I think local governments fear mobile homes being set-up where they are not zoned and then NEVER moved again! They feel if they let people set them up that they will stay forever, and it's much easier politically to just

not allow them on the property now, than to try and evict them from the property 2 years from now, with the sad faces on the front page of the paper of the affected MH owners.

Anyway, just my view, but it is food for thought.”

Amen, Bro'.

Baseball game

I'm a Red Sox fan, no longer rabid, but interested. The afternoon of opening day I was watching the Texas Rangers-Boston game, when the banner in back of home plate for one of the innings said “Palm Harbor Homes”.

We see so precious little HUDCode home advertising other than in local markets, that I was surprised. But, you've got to hand it to those boys (and girls) at PHH, they are on a roll, and they do things well.

I suppose with Texas their home base and the Rangers widely watched on T.V. it may be an easy choice. Still, they were doing it, and it was being seen, all the way to Burlington, Vermont.

Las Vegas cometh

The giant Las Vegas Congress is to be held April 18-20 at the Paris Hotel. I expect to attend, leading a panel of industry lenders on chattel financing. I'll be certain to speak with a wide tier of industry participants there to ascertain the prevailing feeling a third of the way through 2006. I'll report my findings and observations to you in my April letter at month's end.

Flashback

I want to close with a flashback to my newsletter, of March 2003, "Failed Model Warren? What failed Model." Of course, the "Warren" is Warren Buffett the legendary investor from Nebraska. I am a big fan of Mr. Buffett's as I know many others in the industry are as well.

The following is a direct quote from my March, 2004 newsletter. It quotes Mr. Buffett's February 27, 2004 letter to his stockholders, the release being an eagerly anticipated annual event by savvy investors. My newsletter said:

"Now, let's look at his *actual words* which is the basis of this opinion piece, and I quote him (Warren Buffett):

'During those years, (the 1990's) moreover, both the quality and variety of manufactured houses consistently improved.

'Progress in design and construction was *not matched*, however, by progress in *distribution and financing*. Instead, as the years went by, the industry's business model increasingly centered on the ability of both the retailer and manufacturer to unload terrible loans on naïve lenders.' (emphasis mine)

(The above is from page 5 of Buffett's letter of February 27, 2004.)

"He continues on, 'A *different business model* is required, one that eliminates the ability of the retailer and salesman to pocket substantial money up front by making sales financed by loans

destined to default. . . . Under a proper model – one requiring significant down payments and shorter-term loans – *the industry will likely remain much smaller* than it was in the 90's.' (emphasis mine)

(from page 6 of Buffett's letter of February 27, 2004)

"The foregoing are the exact words as delivered from Warren Buffett to his shareholders. They are the words of the world's greatest investor as to how he sees the MH industry. To paraphrase a saying, when Warren talks, maybe as an industry we should listen."

Why do I bother to re-print this? First, I want to seriously ask what we've accomplished as an industry to meaningfully change the model in the two plus years since Mr. Buffett uttered these words. Is it enough?

And secondarily, I want to ask those who think I made up the "failed model" whether they know more than Warren Buffett? If you do, my compliments.

MHL Corp specializes in arranging chattel loans for **MH**. If you haven't tried them, join the many sellers who use **MHL Corp**.

888-674-2200

Following a failed business model?

Making the same mistakes previously made by others?

Wondering if your business activity is all it can be?

My 33 years of business experience can help you sort it out.

Let's review your **vision** and **implementation** to determine how robust it is.

Call Today!
802-862-1313

Martin V. Lavin
350 Main Street
Burlington, VT 05401
Mhlmvl@aol.com
802-862-1313

Looking for Access to Factory-Built Housing Leaders & businesses?

Marty Lavin has excellent contacts throughout the industry to facilitate your business and your industry studies.

Call Marty Lavin

802-862-1313