

FEBRUARY 2008



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Marty's News & Notes

Featuring news about the Factory-Built Housing Industry
Contributing to the industry discussion...

INDUSTRY IMAGE CAMPAIGN

Free Media Campaign

The mobile home/manufactured home/modular home Image Campaign continues to run daily in the news media. I have set up a “Google Alert” for the words “trailers, mobile homes, manufactured homes, factory built housing” and hardly a day goes by without one and sometimes many stories in the media. Recently that number has increased dramatically, as a real up-tick in alerts has occurred.

As I write this morning we had over 200 different media stories in all areas of the country, and from abroad. In my own local newspaper, on page 3, there was a large story and picture on a story concerning our industry. And guess the best part of this image campaign; it's not costing the industry a dime. Our industry image is being formed in the eyes of the public completely free, by my newspaper and thousands of other media outlets.

Let me give you a quick look at the headlines Americans and their Congressional electees are reading around February 15, 2008, and continuing to the present day:

1. “FEMA hastens trailer relocations: Formaldehyde reaches toxic levels according to CDC.”
2. “Presence of dangerous fumes confirmed in FEMA trailers.”

3. “Governor Easley worried about mobile homes.”
4. “Scientists closely examine FEMA trailers. Test reports this week by CDC showed formaldehyde levels in hundreds of FEMA trailers and *mobile homes* were, on average, about five times higher than what people are exposed to in most modern homes.”

Trailers or Trailers

Interesting stuff, eh? And does “trailers” mean only travel trailers, or does it include park model homes, mobile homes, and manufactured homes? A perusal of the articles gave me scant assurance we weren't included. In fact, I'm sure that in the eyes of FEMA, Congress, governors, regulators, the media, and yes, the public, we were included. All over America, perceptions are being formed about our homes, and in a world where few people delve into most subjects in any depth, the image campaign being run on manufactured housing, also known as “trailers” by most Americans, is carefully creating an image of who and what we are.

I'm actually slightly more knowledgeable on manufactured housing than most Americans. As a lawyer, I had to prove to a law school and a board of bar examiners that I have at least eighth grade reading ability. As I read the numerous articles, and the industry releases on the subject, I cannot precisely tell whether there is a

problem with our homes or not.

I know there is one for sure in travel "trailers," that much is clear. But like Governor Easley of North Carolina, I have to ask someone who knows, is there a problem in manufactured housing? He's asked **Brad Lovin**, the **Director of the North Carolina Manufactured Housing Association**, "Is there a formaldehyde problem in manufactured housing?"

Yes or No?

I reread the MHI release of February 14, 2008, and I still do not know the answer to the question, "Is the level of formaldehyde contained in manufactured housing so elevated as to be dangerous?" I think our press release says the homes do not have formaldehyde in excess of HUD standards. The release also stated that the CDC testing found levels in our homes below levels considered acceptable by HUD and the EPA. Left unsaid is whether the Center for Disease Control and HUD disagree over the standards, or a variety of other possible concerns swirling around our housing.

In an industry reeling for shipments stabilization, even at the present levels which are the same as the level of 45 years ago, the current firestorm over formaldehyde is surely a most unwanted event to the manufactured housing industry. The image campaign waged by the media in this matter continues the extremely negative image campaign which started against the manufactured housing industry in the mid 1960's as the "George Jetson" era ended (gee wiz, we are all going to live in mobile homes and trade up to bigger tailfins every five years!) and was replaced by the long running "trailer park" era (Jeezum, no, not a trailer park to ruin my property values!). We are still well stuck in the current **Jeezum, no**, era.

That media campaign has **created** a grim parody of the manufactured housing industry as a place for deadbeats, druggies and the home of people of the lowest social and economic status. So thoroughly has the stereotype cut that even the industry seems relieved when they can find a positive story in the media. Those few positive stories have all had the same by-line since 1975;

"Wow, have you seen the new mobile homes (or manufactured housing?). They are much larger, better built, safer and appeal to more upscale people now." I guess that means that all homes previous to whenever that statement was last made were smaller, poorly built, unsafe, and appealed to downscale people. That seems to be the one positive story that ever runs. And while it appeals to us in the industry, the fruits of that message have brought scant industry relief from the long running parody, "Run a \$100 bill through a trailer park, you never know what you'll find." *James Carville.*

And in the face of the inexorable weight of the slowly moving, all engulfing, crescendo of negative press, the positive "have you seen how great they are lately," is lost to the masses.

More Study

Even as we study starting an industry image campaign, never before attempted by this industry on a national scale, I speak with few who believe it will happen. I speak with many who believe it should, but most despair it ever will.

The two reasons one hears from those who oppose the campaign is that 1) it's too expensive; and 2) we have much to correct before we can go on the offensive. Truthfully, this reasoning is so puerile, I object to answering it. But here goes, 1) are you telling me there is no cost to this industry to having others frame it in a most negative light? And 2) as an example, if in fact as the industry says, formaldehyde in manufactured housing consistently meets the HUD-imposed standards, what is it the industry must change before it goes on the offensive to correct the misconception? And in my mind going on the offensive doesn't mean an MHI or MHAAR press release with rebuttal. That is akin to going hunting elephants with a Red Ryder B.B. gun.

There is no guarantee an image campaign will save the industry at this late day as the drumbeat of almost 50 years of negative perceptions has so engulfed the industry in the eyes of the public, that there are no guarantees the perception can be turned. The permanent damage done to the industry is all around us daily and not starting a campaign to change it does leave room for concern, doesn't it?

Those of you who keep an eye on current events know our FEMA sales over the last 10 years has had another negative impact for the industry. FEMA's perceived incompetence became our perceived incompetence as housing. Their inability to convince various regulatory authorities of being able to site our homes for the use by the displaced hurricane victims became our baggage. Once these single mamas with multiple children moved into the MH temporary subdivisions, they'd never leave again, or so the mayors and regulators thought. Instead the homes rested in holding lots. Those were our sea of roofs in those famous aerial fotos seen on the nightly news. Good impression for us?

And then, when those unused homes all wound up in Hope, AR, being stored for years, rent being paid for storage, the industry moved to block FEMA from selling these homes off. Would take away sales from us, see? And those homes, nobody wanted to see be used, except the victims of the hurricanes, laid there, rotting in storage, and like a gift which keeps on giving, those images kept coming back to plague the industry. Single moms, illegitimate children, trailer park slum, storage being paid, homes bought by government but not being used, and now, the best of all; formaldehyde in trailers! Almost makes you long for nice simple government stuff, like \$10,000 toilet seats.

Formaldehyde Sequel

We walked into it head down, prolonged it by our actions, did nothing to correct the misperception leading to all this, and now we are back to formaldehyde. If Formaldehyde One was lots of fun in the 1980's, let's see how Formaldehyde Two does as a sequel. They say that with the exception of *The Godfather Two*, they are never as good, and often end poorly.

Politicians learned long ago that when you are being depicted by others as something you don't want to be, whether it is true or not, you must *quickly* go on the offensive to dispel the perception being formed. Truth matters little in these matters. In the eyes of the public, perception is

truth and we stood by for 50 years letting highly negative perceptions, true and untrue, paint the industry into an untenable position. Yes, we ran off, always on the defensive trying to answer the reports, but we are small, and they are many. Yes, MHI and its **President, Gail Cardwell** did put out a news release on the formaldehyde issue. I found hundreds of stories uttering "trailers" and "mobile homes" have formaldehyde but not one toeing, and most not even mentioning the MHI line. No doubt some ultimately did mention the MHI position, but what do you think the lasting impression on the public will be in this affair?

I'm told politicians of all stripes drink coffee and read one or more newspaper every morning. This is their "early warning system" of how to act and think. In the last few days they have been deluged with "formaldehyde in trailers" stories. The industry is presently in quest of special treatment in several areas of financing regulated by federal law. We have been contacting our representatives in Washington for months now for favors.

Needing Help

But in the last few weeks, as they read their newspapers, what do you think they concluded about our homes on the formaldehyde issue? And now as we go to them for help, will they, like Governor Easley, ask us to tell them about the dangers of living in our homes and how they can protect their constituents against these perceived dangers? Or will the conversation immediately turn to our political needs, with the legislators moving quickly to help us?

The danger of having lost control entirely of the manner in which the industry is portrayed is to a great extent responsible for many of the daily challenges thrown in our path. Failure to rebut and change many ill-informed misperceptions about manufactured housing is ever squeezing the industry into a smaller footprint. How we can any longer doubt our need to portray ourselves to the American people closer to what we are, instead of the caricature we've been made into is perplexing. I just don't get it.

PERCEPTIONS FROM INVESTORES

Above I've been speaking of industry perceptions, especially in the eyes of the public. But, perception of the industry comes from other quarters as well. As

I've frequently said, one of the good things about writing this newsletter is hearing from many different points of view. After the January newsletter, I got the usual number of observations from my readers, both agreeing and disagreeing.

But one of the responses was a little different. It came from a person who seeks a return by investing in our industry and he was pretty blunt about conditions he saw here. Agree with him or not, he writes persuasively. Let me share his remarks with you to see what you think:

"I continue to believe that there is a place in the U.S. (and other) housing markets for manufactured homes. However, after all these years of negative news and performance metrics, there continues to be no "NEW" (investor) interest in the manufactured home industry. This is very disturbing and the result of decades of mistrust and greed.

Don't take this the wrong way, but there is no "NEXT" generation ready to takeover from the elder statesmen that continue to refuse to change or adapt to the new world. The current regime of industry leaders have made lots of money and (had) long careers (in) manufactured housing. Yet, for a variety of reasons, these same "leaders" remain reluctant to incubate a new generation of thinkers that may be able to prevent the industry from obsolescence. Without a fresh perspective, energized leadership, and more importantly, new investment capital, I am afraid the manufactured housing industry may never recover.

These wisemen of decades past would be best served by accepting outside perspectives, stop attacking anyone who criticizes the industry and its decisions, and moving aside to let (a) younger, more energized generation revitalize the industry. They have no one else to blame but themselves . . . their legacy is at risk."

I'm one of the older generation he speaks about. My children are not interested in the industry and I've made little attempt to get them involved. While that is

not a universal condition, certainly many industry players are not encouraging their youngsters to get involved in manufactured housing.

And most of the people with whom I deal in the industry, with a few exceptions, are on the wrong side of 40 or worse. Is there a youth deficit in manufactured housing? A diversity deficit? A gender gap? I cannot speak to these authoritatively, but we do skew white and old as an industry personnel.

There are thoughts in the above note which require reflection. To my mind the industry change aspect rings loudest. And in that aspect there can be no doubt investor money has not rewarded the industry for cutting edge change, calculated to explore the boundaries of success through new thinking. What did *Albert Einstein* say on the subject?

"The problems we face cannot be solved by the same level of thinking that created them."

At least my correspondent is in agreement with a pretty smart man, Dr. Einstein.

MEETINGS

Big Blue

Growing up in an area that housed a large IBM plant, I had many schoolmates who went to work for "Big Blue." For those of us on the outside, and even many on the inside, the seemingly endless meetings held at IBM were a source of amusement. What could they be discussing at such frequent and lengthy meetings? We all wondered and assumed it was work avoidance rather than business furtherance going on at Big Blue.

And all throughout the 60's, 70's, and the 1980's, IBM was the giant market leader, powerful, large and profitable. We all knew what they did, make computers, and good ones at that. But, . . . IBM computers were expensive, and the day came when their computers were no better than those made by upstart makers, and IBM started losing market share, which threatened their very existence. The meetings got even longer then.

Today I know IBM is a changed company. I'm not

sure exactly what they do, but if I go to Staples I know I can't buy an IBM computer there. Since they are still large, still very profitable and scattered around the world, they must be doing something very right. Could this all have happened without all those meetings? Who knows.

But, there is a lesson for our industry in these meetings. Our trade association, **MHI**, for a very long time held three meetings annually in addition to the **Las Vegas Congress**. While the Congress is not a meeting per se, one certainly meets plenty of people.

Recently, MHI decided to reduce the meeting schedule to **two meetings** and the Congress, instead of the **former three** meetings held in the summer, fall and winter. About a year ago the winter meeting disappeared. We were meeting too much was the reasoning advanced. Too much? Like IBM?

Too Long

The last MHI meeting was last fall in October 2007, and the next will be in June in DC. Essentially 9 months will have passed without a meeting as MHI discourages formal meetings at the Congress in April.

The interval between the meetings is so long that **National Communities Council** of MHI, to their credit, met in early February in Dallas to bridge the gap until the June meeting. Rightfully so, in my opinion. The communities folks well understand this industry faces many challenges relentlessly grinding it down, and a discussion of conditions and ideas to better them seem worthy of meeting to discuss. A tip of Marty's hat to the NCC for meeting while others fondle Nero's fiddle.

Can the NCC folks by themselves save Rome? Probably not, as the industry is so interconnected, that they can only impact a part of the industry mosaic. But they must have felt they wanted to try to do something!

There are those in the association who take the position that since things are punk, one

should save time and money by meeting for half an hour at high noon on a Sunday, once a year. And some of our industry associations do in fact have that type of meeting schedule. Presumably they were repulsed by the IBM model of meetings and their coming up with a plan to not only save Big Blue, but getting it to prosper again. Hell, who wants to do that?

Watch Others

Many years ago one **Ed Beckley, Mr. No Money Down** tried to teach television viewers how to profit from real estate. He used a line which forever is emblazoned in my mind.

"Wanna be rich? Watch what poor people are doing and don't do it."

Simple huh?

I like to think as an industry we might watch that successful companies and associations create ample opportunities for meetings for networking and an exchange of ideas which can be accomplished most successfully by face-to-face meetings.

Because of this newsletter I hear from many people. Without a doubt, the *prevailing opinion* repeatedly expressed to me is that dropping the winter meeting was not a good idea. While the Task Force email and phone meetings have had some impact in continued communication, they are a poor substitute for the general face-to-face meeting, where so much more can be accomplished. The attendees are there, not on the road with a cell phone as they drive to the next appointment. It is very difficult to get the same results through phones and emails. And if creating a successful enterprise could be done by phone and email, the marines wouldn't be at Parris Island.

More Like IBM

Last time I looked, when the MHI meeting details and registration form arrived, it was entirely voluntary to attend. You viewed your time schedule, looked at your checkbook, and determined whether the affair was worth attending. From what I've observed, there is a high incidence of MHI members attending the meetings. People must think the meetings are of value.

The cut back in meetings seems to most a decided step in the wrong direction for most and a further step

back from an urgent need for action. Perhaps the winter meeting should be restored and those not desirous of attending should stay home. But to reduce the chance to meet to further industry goals seems "un-IBM," and if there is anything we should be as an industry is more like IBM. They met serious challenges and overcame them. We have yet to do so.

POST SCRIPT

Two Subjects

Towards the end of the month the two subjects of this letter, the Image Campaign and Meetings continued to dominate industry rumblings. Certain key industry personnel sent numerous, candid emails around, each recipient in turn editorializing their feelings.

If I could guess, the Image Campaign is essentially high priority for most MHI-ers, but not seemingly for the powerful group of builders who control MHI. The prevailing feeling seems to be that before we go with an image campaign we need to clean up our act. Thank god there are still things to laugh about in our daily work, and this old chestnut is certainly one of them. There are so many reasons rebutting this assertion that I find it laughable.

First, since the Roper Study of 4-5 years ago and the J.D. Power study of 2-3 years ago, what is it the industry has done to improve its "blocking and tackling?" I see precious little, except more people, including some who have blocked the image campaign, are now gone from the industry. Fired in some cases or their companies gone south. So if real work is on-going to correct our act, I'm not tuned into it. Perhaps one of my perceptive readers could enlighten me what these moves are and their results. Please don't point out Task Forces III. It's been done before. What were the results?

Wont' Listen

Next, we refuse to listen to two organizations that have clearly advised us to get our image campaign going in spite of our self-perceived industry performance deficiencies. Both the **RV indus-**

try and the **Propane Council** started their image campaigns long before the performance of their industry players would score a high CSI with most consumers. Still, they raised the money, moved ahead, and profited greatly by telling their message to America. They've both told us that. As an industry we not only won't emulate IBM, but we entirely discount what the experience of other industries has been. As we've gone from 373,000 shipments in 1998 to 96,000 in 2007, we continue the same essential industry course, unfazed by the pain, secure in our path, embracing the belief government and the GSE's are screwing us up. It's not us.

Further, there are many things being said in the media daily which have nothing to do with "blocking and tackling." As an example, in this whole formaldehyde mess now ongoing, wouldn't it be nice to inform the public the difference between a trailer, mobile home, and a manufactured home? In spite of industry deficiencies, wouldn't it be smart to clearly define for the public what we do, the role we serve and the need for our product so we are not further restricted everyday in some locale? Informing the public of our all-so-very-important role for affordable housing is playing to the strength we bring. We know all about the strength, but does the public? Is this a blocking and tackling issue? How do we bring this about in *this* century without a media campaign?

Media Doesn't Work

But the most telling of all; if media campaigns do not work, then why are some who are so very against the industry image campaign conducting their own? Is their money wasted? Roper and Power told us virtually every builder had less than sterling CSI. If we read the various blogs and consumer web sites, some pretty angry consumers carp at their performance. Spending money to advance their own company has limited potential for benefit because once the product gains the type of reputation our HUD homes have in the marketplace it is virtually impossible for a single company to rebut the popular perception of trailer parks and "\$100 whores." It's a staple of late night comics safely mouthed by your local newspaper at will. It's become part of the American fabric going unrebutted. By yourself, it is virtually impossible to rebut as a single company.

We must change the popular perception being car-

ried out daily relentlessly by a news media that doesn't really know and doesn't care to learn on its own. At least ***we must clearly define ourselves***, not let others do it.

If the dilemma in moving forward is a desire not to save some faltering companies from the effects of the industry depression, the results of not saving them may ultimately render HUDCode housing so impotent as to be irrelevant. That danger grows daily.

Still, there are people in the builder ranks who are willing to put their ass and their money on the line to create a better image, and a truly better customer experience. These folks are to be commended and we must hope more builders will jump on this bandwagon. Signs abound the matter is under daily discussion.

Did we learn nothing from the frightful image of the automakers of the 1970's-1990's? Only the annual J.D. Power survey and making it public led to the incredible increase in consumer satisfaction for a product of great mechanical complexity, the automobile. I don't even know my service manager's name anymore and I like that just fine.

Sensible Response

This to me from one of our builders:

"Manufacturers, finance companies, and suppliers are making short term economic decisions to do business causing long-term detriment of the industry. Obviously, the current methods of trying to get (destructive) activity to stop are not working. I believe that the industry was on the right track a couple years ago when MHI engaged JD Power to do a Customer Satisfaction Index (CSI). Unfortunately, the industry has not followed through with this.

My suggestions would be as follows:

1. Engage JD Power to do an annual CSI on the industry.
2. Make the JD Power report public

3. Make public service commission complaints public.

4. Have 3rd party verification of retailer's character and financial conditions. (i.e. bonding)

All of these would increase transparency in the industry and help customers make better purchasing decisions. Arguments against the above steps all involve hiding or trying to cover up problems. The people who are not buying our homes already know our problems. It is time that we put the tools in place to address the industry's problems."

I couldn't agree more.

FORMALDEHYDE REDUX

Because I am late in getting this newsletter out, it having sat on my desk for a couple of weeks, the formaldehyde affair has moved on beyond my earlier remarks. If more is now known about the facts in this matter, I don't see it has necessarily turned to favor manufactured housing. Recently, one of the thousands of stories carried by the media on this matter worldwide, included the following:

"Toxic Katrina trailers may spur tougher building codes."

"Indiana manufacturers have until Friday to submit documents for congressional inquiry."

Joseph Hagerman, who heads the building technology group for the *Federation of American Scientists* in Washington, who was hired by the *State of Mississippi* to help design a safer emergency trailer and who is an architect and engineer and studied the FEMA trailers for the federation, said:

"My one concern is this is going to kill the manufactured housing industry in the United States. It's going to create the perception that all manufactured housing is full of formaldehyde." Yup.

"Because of the congressional probes,

Hagerman said he expects trailer makers will fight back against a public perception they are making unhealthy houses."

Maybe.

"What we are going to see is a move to a tougher code." Perhaps.

"Builders could launch a campaign to point out that they have upgraded standards, and the campaign could carry over to builders of regular homes." Let's get started immediately!

Make what you will about these remarks, but I for one find them extremely interesting.

LESSONS FROM THE SUBPRIME LOAN MELTDOWN

Recently as the **Wall Street Journal** and other publications are trying to learn lessons from the subprime mess, they have been interviewing business executives and educators, especially business school profs, to determine what has been or should have been learned. Those of you not from Mongolia know that the manufactured housing industry suffered its own meltdown, its industry impact as severe as the subprime loan problem, starting in 1999 and still on-going. This brings up the question of what lessons our industry has learned, if any, from our own meltdown:

The Journal reports that two primary lessons which have emerged early are:

- 1. Make subordinates comfortable with being negative about the current manner in which the company and/or industry is operating, and the ability to mouth these concerns clearly and persistently, until proven wrong, or matters are corrected;**
- 2. Failure to plan new initiatives before the current wave crashes, as its really easy to fall into the trap of whatever is working for us today, let's just keep doing it tomorrow (forever or until broke).**

MH lenders, of course, did learn horrific lessons after 1998, and the dark days of 1999-2005 strongly reduced the number of lenders, some

even departing in the recent past, and the departures may not have ended even yet.

But if we look at the current industry business model of production, distribution, siting and after sale, the industry is essentially operating as it did in 1968 and 1978, and 1988, 1998 and even yet in 2008. A refugee from 1968 would have little problem understanding the current industry model in most industry endeavors other than in lending. In lending distinct changes have occurred mostly for the better, although not totally.

So, has the manufactured housing industry learned any lessons from its meltdown? Does the industry fully accept sound criticisms, especially those who have been proven right over time?

Is the industry still falling into the traps of continuing to do what once worked, but is no longer working, but still trying to succeed by use of the same course of action?

We don't need any business school professors to answer these questions, do we gang? It would seem we have learned little from this viscous down cycle with precious little change to create better prospects. And insofar as listening to warnings of failures of the industry business model, the industry attitude seems to be to avoid the warnings rather than listening to them, deciding whether there is validity, and engaging the concerns.

SHIPMENTS

This one is easy. The January shipments flash was more of the same. Just slightly less than last year's horrific pace. So far, expect well under **100,000 shipments for 2008.**

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