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Marty's News & Notes

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

THOUGHTS FROM LOUISVILLE

Interviewer: So, Marty, what was your impression of the Louisville Manufactured Housing Show, held January 15-16-17 this year?

Marty: Well, there are two new indices I've developed which tend to give me some idea of the attendance levels of the show, which have a pretty close correlation to the success of this show. The first one is the How-close-could-you-park-your-car index. And this year, arriving at 10:30 AM the first morning, I had no difficulty finding many slots right next to the main entrance. My recollection in the past of arriving at this hour, which I usually do, is that parking requires a lot of driving around to be close, trying to find a just-vacated spot before anyone else does. So let's just say that the opening salvo was not encouraging.

The second index is the How-many-parties-at-Executive-West-Motel-are-there? This one shows the number of parties the various exhibitors are sponsoring the first night at the most popular venue for such affairs. At times in the past the parties have been 5 or 6 or even 8 or 10 in number. This show had **three** the opening night. All very nice affairs, the first hosted by **Sam Weidner, Sr.**, at the **Patriot Homes** reception, also the **Blevins Supply** affair hosted by **Brad Blevins**, and the largest of the group, the party of the **Kentucky MH Association**. I don't know who the *major domo* is there, but now that LLC operative **Nathan Smith of SSK Com-**

munities, has been appointed the **Democrat Party Chairman** for the state he may come as close to qualifying as anyone. Nathan is a "man of the people" and the only question I have is when will this popular man stand for governor of Kentucky? In the meantime, he is busy handling pardons for criminals, appointing county backhoe operators and taking kitties stranded in trees back to earth. Have a special request to be handled anywhere in Kentucky? Call Nathan for his help. He's put in a special phone line for these types of calls.

So the easy parking and low number of parties gave testament that perhaps this show would not distinguish itself.

Low Attendance

Interviewer: So, what is causing the low attendance? Is it the homes themselves?

Marty: Well, no, I can't say it is the homes. In general, I contend that most of our homes have significant appeal and are generally well-constructed. I'm not exactly sure what the disconnect is between the generally favorable remarks you constantly hear as consumers tour our homes and the low volume of sales. I have one theory and I heard 20 others at the show. But something is amiss.

Only one person I spoke with at the show said he'd done very well the last few years and he was surprised when he heard the industry was down

72% since the last top (1998). I guess that only shows we all view life through the crucible of our own existence. Fair enough. And it may be everyone is at least partially right. The chap who argued strenuously that lenders could charge 9% rates with 600 and up FICO's, in chattel LLC placements, has no idea what loan performance is with that type of paper, but he is adamant in his belief. And know what? The undertone in his argument that part of the lending problems, especially with chattel, is lender fear, is at least a consideration.

Heard in the Aisles

Interviewer: What was the chatter at the show?

Marty: I did hear various rumors, one confirmed, of potentially more lender defections from the industry, and continued hostility to our loan types from the corporate parents of some of our existing lenders. The sub prime real estate mess seems to have us ensnared in its web, which very much seemed on everyone's mind. After the show **Dan Baxter**, the team leader at **Popular Housing Services** called me and confirmed they are exiting the industry. It seems their parent is pulling in its horns and the MH portion is closing.

Others argued strenuously that this is an economy-related downturn, at least for the last year or two, and the thinking there is that in the next 2-3 years a bounceback to 150,000 new home shipments is imminent, so one analyst told me. Love to see it!

Another analyst told me that in his conversation with clients he has pointed out to them how much better the credit quality of MH paper sold as ABS is than the real estate secured sub prime paper MBS'ed during the same period. He wondered whether the industry *was doing enough to document this positive news to investors*. He deals with it every day so I urged him to email **MHI President Gail Cardwell** and carbon copy **Michael Bowen, MHI Financial Division Chairman** with that information and as a follow-up to the industry Wall Street conference held last October.

A third pundit, a "big boy" at one of the major lenders sent me a well-considered email on the

industry malaise, carefully identifying various reasons for our troubles, predicting a flat year in 2008 over 2007, and a bounce to 120,000 homes in 2009. I hope he is right.

He also mentioned that he had reviewed some sub prime portfolios. His comments are worth reporting:

"Misery loves company department: just looked at a subprime fixed rate first mortgage portfolio --- average credit score 550. We started with a Nov 30 trial balance. 60 day delinquency soared --- from 26% to 50% within one month! [By the way the decimal is in the right place]. Few, if any, of these borrowers would qualify for a loan from a surviving MH lender --- but 10 years ago there would have been several MH lenders rolling over to make these loans.

Underlying question: what was the real demand for housing over the last 5 years? "Real" defined as a homebuyer with real cash investment in a home and reasonable credit rating. MH industry will have to endure the recycling of the foreclosures."

Yes, they will have to endure them.

I suppose the easy answer for the low show attendance is that as the industry has shrunk, there are fewer companies, with fewer personnel, with less disposable funding to attend these affairs. It would follow that a smaller, less profitable industry would produce a smaller, less attended show.

Surprising

Interviewer: What, if anything you saw at the show surprised you? Anything?

Marty: Yes some things did impact me to some degree. The first was the large number of display booths there offering services to the industry, but who are not "industry companies" primarily. It seems as the industry has shrunk, these shows have an ever-increasing percentage of these types of exhibitors. My conversations with many of them found that they were trying to do some business in MH because their normal markets were quiet, or they were trying to get diversification in their business model. All very understandable, as several of the MH industry companies told me of their plans to diversify into other areas for the same reason.

Interviewer: Anything else of note?

Marty: I am always surprised to see the **U.S. Census Bureau** there, and enjoyed speaking with **John Tremblay**, the head of the MH section, and this year he had his boss with him. I enjoyed a lengthy conversation with both, looking at some MH trends identified by their figures, some quite startling. I'm hoping to report some findings which will result from their data, in revealing where the industry is heading. If I still do not think the information they capture is as complete as I'd like, it is still far better than none. And I give the Census Bureau strong marks for showing up to the show to expose their research to many attendees there who may not know of its existence.

I was also a little surprised I didn't see as many industry "Big Shots" there as seems normal. Maybe I just wasn't looking, but there seems to be a trend recently of many top industry leaders not attending the show. There's another indicator of how the show is faring. I did, however, see and chat with Southern Energy's **Keith Holdbrooks**, who will be taking over the mantel of MHI leadership soon, and who by any definition is a "big shot."

Finally, it was announced at the show at the **Manufactured Housing Merchandiser** booth, the Chicago based industry bible, that long-time industry participant, publisher of the Merchandiser, and one of the industry's most popular and influential people, **Herb Tieder**, had gone into retirement, seriously slowed by failing health. The man has been present during almost the entire span of our industry. We must all exit stage left at some point, but it doesn't make it easier to see a popular long time industry presence withdraw from active participation.

Good Chow?

Interviewer: And finally, Marty, how was the food at the concession stands?

Marty: Not that good, and the coffee was worse. I found better food at some of the home displays and ate there. (And . . . it was free!)

EMAILS, I GET EMAILS

One of the benefits of writing this newsletter is that I get to hear from a lot of well-informed and interesting people, sprinkled with just enough criticism to keep my hat fitting on my head. No matter how pleasant or unpleasant the response is, I read it, re-read it, size it up, and look for the strength in its contentions. Obviously, when the contentions agree with mine, or bolster mine, my chest puffs out so my shirts don't fit. "Oh lordy, Marty, you're so smart!"

But some people don't think that way, and then the unit shrivels, and I assume the pre-natal position for protection and go straight to bed.

Let me share a couple of examples with you to show both types. The first is an exploration of the difficulties faced by the industry, and a potential direction things could take, both examples edited for brevity, by me.

Some thoughts

The first, came from a long-time home builder who is still very active. Here's what he said. See if you agree?

"We all know that the 370K units we built in the 90's is history and we will probably never get back there. But there is a place for the product. It is not trying to compete with site built in towns and cities (too many obstacles that all the advertising money etc. cannot overcome). The real market is two fold. 1) Rural areas where stick builders cannot compete. This consists of private property on farms and ranches and small tracts of land where available. 2) Manufactured housing communities both family and over 55. The viability of this market has been severely hampered by the drive for big houses. The new Title I FHA requirements should have a positive impact on the industry as dealers and manufacturers change there product mixes to conform to the new chattel limitations and if there is truly money available there you will be shocked at how fast the reaction is to the new product. This will positively effect the conventional chattel lending also as we get back to the affordable housing we were supposed to be building and selling in the first place. A realistic and healthy level for the HUD code industry is somewhere between 150 and 200k units."

Interesting comments.

Slammed

Another perspective of Marty appeared recently, and I'm proud to say that I am viewed as so powerful that I alone am the cause of the sad industry performance since 1998. Can you imagine how powerful I am? No unit shrink here.

Perspective

"I have always been amused at the way some real **losers** become self-appointed 'experts' . . . It seems we have a self-appointed 'expert' in our industry who failed in the lending business and constantly lays the blame on other factors, and vehemently uses his 'expert' status to try and change an entire industry. I'm not big on taking advice from losers; I prefer to follow a winner."

And so life goes on, as I know that if one lives long enough, he'll see it all. And I surely haven't seen it all, but I have seen my share.

KUDOS TO JEFF

A Tip of Marty's Hat. I know **Jeff Wick of Wick Building Systems** and I like Jeff Wick. We know from the ill-fated **J.D. Power** report that Wick's consumers gave them high marks in customer satisfaction, the best, in fact. I also know that Jeff has become very engaged in industry affairs, with frequent notes to **MHI President, Gail Cardwell**, and **MHI Chairman Barry McCabe** on subjects of importance to him and to the industry.

Relationship

But now I hear that Jeff and Wick Building Systems are not only "talking the talk," but moving towards "walking the walk." In a recent memo sent to their builders, Wick announced that a new builder agreement is in the works, with the intent that the new agreement would supercede all agreements now in place. The tenor of the revised builder agreement is that Wick Building Systems wants to be allied with builders who do a very good job for the consumer, who ethically and honestly represent the Wick brand and who complete delivery of the Wick product to the consumer in a fashion which assures, within reason, that the consumer got everything he bargained

for, as a minimum. All of this is meant for Wick to work closely with their builders to create maximum consumer satisfaction.

The results of this move are unknown as yet, but every other industry which has taken this attitude with the consumer has flourished and those who haven't delivered (you gotta walk it, not just talk it) have died a slow and painful death. Well done, Wick Building Systems! I hope you and your builder "partners" will be copiously copied.

UNINVITED

I wrote last month that I would attend **George Allen's** "Caucus" of land lease communities in Tampa/St. Pete, on February 26-27. It was to be an opportunity for land lease community owners to discuss the prevailing conditions in their segment. And for those of us who formed a steering committee in 1993, which ultimately resulted in the MHI National Communities Council, it was an opportunity to reflect on the 15 years which have passed since then. Being an original member of the steering committee, I though I'd attend, listen in the corner and keep my mouth shut. While I am still in the LLC business, it is not my main focus.

But, after my notice in my newsletter that I expected to attend, I was "disinvited," or more correctly, I disinvited myself. The good news; George sent my \$200 attendance fee back! I hope the attendees have a fruitful meeting. Wanna attend? Call George 317-888-7156.

THE MHL CORP ANNUAL SHIPMENTS CONTEST

No December shipments released yet as I write. **Tom Beers, MHI Economist** thinks the December shipments should come in between 5-6,000 homes. This will assure a below 100,000 home shipments in all of 2007. Note that in April, 1973, we shipped **61,560 homes in just that month!**

FLASH!

Just as we went to press, the following came from the **BB&T analyst, John Diffendal**:

"MH December shipments, released this morning by IBTS, fell 6.8% units, which is the second

lowest shipment result going back to 1959 (5,700 was the lowest shipment number reached in Dec. 1960). Singles were strong again rising 18.8%, while multis fell by 17.4%. Total shipments from 2007 were 95,769 units (2nd lowest), with the lowest results reached in 1961 of 90,100 units."

The 2007 results were **18.5%** less than the 117,508 homes shipped in 2006.

The MHL Corp Annual HUDCode Shipments Contest Winner for 2007 was **Patrick J. Hoffman of Marcus & Millichap Detroit**, the real estate broker specializing in brokering sales and purchases of land lease communities. 248-415-2638. Patrick predicted on February 12, 2007 that the 2007 shipments would be **97,000 homes**, a mere 1,231 homes off from the actual results.

The **runner-up** in the contest was **Four Seasons Housing CEO** and marathon runner, **Austin Baidas**, who predicted **97,875 homes** on February 2, 2007.

The two above contestants are to be complimented for their early vision on what 2007 would bring. I have already received several predictions for 2008 HUDCode shipments. Most of those predictions begin with the number **8**.

No more

I will not be conducting a HUDCode shipments contest for 2008. There is only so much one can say about consistent 15-20% annual decreases in home shipments, and I've run out of things to say on shipments.

And so as I sit on the aft deck of **Monado**, in **Miami**, freshly arrived from Louisville, that is what I heard, I saw, and I thought, just before the show, during and just after. **Hey, are we having fun yet?**

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