O SHIPMENTS, WHERE ART THOU?

By Martin V. Lavin

After looking over February's manufactured home shipments, the news is not good. The decline was more than 40 percent and the year-to-date shipments are 42 percent below last year. If shipments remain at this level, the year-end total will be 145,000.

However, those sorry numbers do provide greater insight into the possible shipments for the rest of the year. When times are this bad, it's always good to review what we know and make some projections for the rest of the year.

The modern era

I consider 1975 the first year of the "modern" manufactured housing industry. Shipments hit a low after the go-go years of 1970-74. That era saw total shipments of 2,387,193 in five years, an average of 477,434 per year.

Times were so good in 1972-73 that yearly shipments averaged around 580,000. Like Archie and Edith Bunker said, "Those were the days!"

Then came 1975. Shipments dropped to 212,690, averaging 254,800 per year until 1979. The next five-year periods averaged annual shipments of 257,800, 235,000 and 225,000. Then, shipments in the final five-year period beginning in 1995, averaged 355,400. Happy days were here again! Unfortunately, the good times would not last. Shipments in 2000 dropped back to 250,550, a much more familiar number.

Many industry observers, most of whom I respect greatly, have opined that 2001 shipments should be in the 240,000 range. I feel like a wet blanket because my shipment target for this cycle low is well below that figure. In fact, my study of the previous shipment figures from the high point in the cycle to the low point, calls for shipments to be around 170,000 to 200,000 for the low.

Whether 2001 is the low point in the cycle depends on a number of factors. But, if it turns out it's not, then my guess of 170,000 is more likely to equal the total shipment figure at the low point of this cycle.

Most of the decline in early 2000 was in the 21 to 23 percent range. And if that wasn't bad enough, by year's end the industry plummeted to 47 percent. Just last January, we saw another 41 percent decline compared to 2000 and a reduction of 54 percent over January's average number of shipments from 1996-99. Pretty grim stuff.

What's going on?

Even though our industry doesn't do a good job of tracking sales, as opposed to shipments, what we do have reveals shipments are dropping more than sales. Since there is an enormous amount of new inventory at retail sales centers, sales will not drop as much in 2001 as shipment numbers might indicate.

In addition, as much as existing inventory will impact sales, the 100,000 repos expected by lenders this year also will have a huge effect. Many of these repos will be late model homes with special financing and terms, and accommodative credit qualification requirements, all at a substantial price discount from similar new homes.

Obviously, they will displace many new home sales. But the aged new inventory and the repo resales will lead to many sales not reflected in new home shipments. That is why I expect sales to be higher than shipments, and by a substantial amount.

In my opinion, 2001 will see substantial pressure on new home shipments as late 2000 and early 2001 shipments are indicating. I can't imagine new home shipments not falling below the 240,000 units everyone has been forecasting. If every month for the rest of the year has the same number as 2000 shipments, the decrease in January alone would take us to the 240,000 home level.

If we look at the last two down cycles (1973-75, down 63.3 percent and 1984-91, down 42.1 percent), it could be awhile before this one ends.

If the retreat in this cycle is the same as the '70s, our shipments will drop to around 138,000 homes. If it's

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more like the latter, shipments could be in the 215,000 range. As a comparison, 1991, the low in that cycle, saw shipments in the 170,000 range.

The real deal

As I look at the sales and fluctuations since 1975, I have to assume this industry generates a real new home sales volume of about 225,000 to 250,000 annually. Homes are sold primarily in prices ranging from $30,000 to $60,000, with around 85 percent financed as chattel and 15 (not more than 20) as real estate.

In general, the evidence supports this as a "natural" volume of business for the manufactured housing industry and represents our real market at present and for the last 25 years.

The years when the industry rose substantially above those average figures (1994-99), over-accommodating lending occurred. Once it became obvious that the industry couldn't find enough quality credit to sustain sales above 300,000 homes per year, the contraction started, with this year being a natural regression. Testing the 1991 level of 170,000 home shipments hardly seems unthinkable.

The disturbing part is if we look at the U.S. population in 1972 (200 million) and our sales of 580,000 new homes in that year, and the population now (285 million) with sales in the 200,000 to 250,000 range, what is happening to us?

Admittedly, the shipment of 580,000 homes in 1972 was caused by lending completely out of control just like 1997-99. Nonetheless, if we look at the population growth of the country since that time, you have to wonder about our market decrease.

On a per capita basis, comparing the early '70s five-year average against the 1995-99 period, sales have decreased by 42 percent. The other five-year periods in the interim were in the 52 percent decrease range. Wow!

This whole area is a subject of great discussion at present. The prevailing opinion, at least by one segment of the industry, is the increase should and must come from the expansion into the single-home subdivision business.

A smaller segment of the industry believes our salvation will come from an intense effort to create more and better communities.

One side wants to become the real estate subdivision business and the other wants to continue, more or less, as business as usual.

It will be interesting to see how this all plays out. ■

Martin V. Lavin is an attorney and 28-year veteran of the manufactured housing industry, with special emphasis on lending. He lives in Burlington, Vt., and represents Mortgage Services Inc. and Mobile Home Lending Corp. Contact him at 802/862-1313, or by e-mail at MHLMVL@aol.com.