

THE MANUFACTURED HOME AS AN AFFORDABLE HOUSING OPTION

by

CHARLES COLBY BENT II

B.A., Economics  
Dartmouth College  
(1971)

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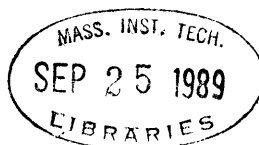
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Signature of Author \_\_\_\_\_  
Department of Urban Studies and Planning  
August 18, 1989

Certified by \_\_\_\_\_  
Sandra A. Lambert  
Lecturer  
Department of Urban Studies and Planning  
Thesis Supervisor

Accepted by \_\_\_\_\_  
Michael Wheeler  
Chairman  
Interdepartmental Degree Program  
in Real Estate Development



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## ABSTRACT

Mobile homes are often perceived as a cheap housing alternative of last resort. This paper reviews the history of the mobile home from its trailer house beginnings to its present manufactured home status. Manufactured homes (HUD Code mobile homes) located in manufactured home land lease parks are an affordable and preferred housing choice of many housing consumers. Furthermore, manufactured housing is one of the most cost effective types of ownership housing available. First time home buyers and retirees constitute the majority of manufactured home owners.

California and Massachusetts, states with severe housing affordability problems for first time home buyers, regulate manufactured home placement differently. California regulates in favor of manufactured housing, while a majority of Massachusetts towns regulate against that housing form.

The housing affordability situation in Massachusetts is verified by the response to public sector housing initiatives, an example of which is discussed. This housing product is compared in cost to the purchase of both the average priced conventional and manufactured home in Massachusetts. The purchase of the manufactured home purchase is the least expensive. The low production cost and the disaggregation of the manufactured home from the land contribute to its low cost.

This study surveyed a group of manufactured home parks in Massachusetts in an effort to determine the demand for park spaces. The zero vacancy level indicates a demand for the manufactured home as a housing option. A case study of the Leisurewoods manufactured home community strengthens the conclusion that there is demand for this housing product in Massachusetts.

The paper concludes that the manufactured home in a land lease community is a housing option for which there is potential demand but which is not readily available to Massachusetts housing consumers. Property tax revisions and up-dated perceptions about manufactured home living will make this housing alternative acceptable to municipalities. Regulatory reforms will encourage developers to provide this affordable housing alternative to Massachusetts housing consumers with no expenditure of state housing program funds.

Thesis Supervisor: Sandra A. Lambert

Title: Lecturer, Department of Urban Studies and Planning

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## 1 Introduction

In this period of high and rising housing costs home ownership has become an increasingly elusive goal for many first time home buyers. High home prices dictate large downpayments and high monthly carrying costs. Either or both of these can be insurmountable barriers for many first time home buyers. These buyers are beset by home ownership affordability problems which require cost effective solutions.

One of the most cost effective types of ownership housing available today is the manufactured home located in a land-lease setting--the mobile home in a mobile home park. However, this form of home ownership is not available to consumers in many municipalities because the mobile home and the mobile home park are regulated against in many municipalities.

This paper starts with a review of the history of the mobile home and the mobile home park in American housing. The literature describing the history of the mobile home leads to an understanding of the present restrictions against mobile homes.

California and Massachusetts each have housing costs that create an insurmountable barrier to many would-be first-time home buyers. At the state legislative level California has regulated in favor of manufactured homes but Massachusetts has not. As a result, there is a disparity of access to mobile/manufactured housing between these states. That disparity is examined.

The paper then presents evidence indicating that regulating in favor of manufactured homes in land lease communities would make an affordable single family residential product available to many housing consumers who are presently precluded from home ownership. A comparison of the costs of purchasing conventional, subsidized, and manufactured housing in Massachusetts results in identification of a group of housing consumers who are precluded from home ownership because their income will only support the purchase of manufactured housing located in a land lease community, the supply of which is regulated against.

A case study of a manufactured home land lease community development effort and interviews with owners of land lease communities confirm that regulatory barriers restrict the supply of this residential alternative. Moreover, the case study, interviews, and survey of manufactured home parks in the South East region of Massachusetts confirm a potential demand for this housing alternative.

The paper concludes that in the Massachusetts setting, high demand for and low supply of affordable housing, there is potential demand for manufactured homes located in land lease communities. Furthermore, the paper concludes that there are potential suppliers of that residential alternative in a changed regulatory climate in Massachusetts.

## 2 Federal Housing Goals and Manufactured Housing

### *Housing Acts of 1949 and 1968*

The United States had little federal involvement with housing before the depression of the 1930's, due to a tradition of limited government and states' rights. In 1933 the unemployment rate was 25% and about half of all home mortgages were in default. Few new houses were being built and the nation experienced the paradox of homeless people while empty houses were available and land, labor, and materials were available at low cost for the construction of more houses. President Franklin D. Roosevelt's programs were a departure from the limited government tradition. The National Housing Act of 1934 created the Federal Housing Administration (FHA) to insure mortgages and to protect the private lender originators of those mortgages in the event of borrower default.

World War II brought a return to economic prosperity, and when veterans returned from the war, there was a serious housing shortage. The Veteran's Administration housing program was started under The Serviceman's Readjustment Act of 1944. Housing loans to veterans were federally guaranteed, but the shortages of housing weren't addressed until the Housing Act of 1949 called for "a decent home and suitable living environment for every American family."<sup>1</sup> The act also strongly encouraged private enterprise to produce the housing demanded.<sup>2</sup>

In 1968 the National Commission on Urban Problems (the Douglas Commission) recommended more housing assistance to the poor and the President's Committee on Urban Housing (the Kaiser Commission) called for production of 26 million new and rehabilitated housing units to be constructed between 1968 and 1978. The Housing and Urban Development Act of 1968 incorporated the recommendations of both commission reports. Subsidies were enacted for renters under Section 236 and interest rates for low and moderate-income home buyers were subsidized under Section 235.<sup>3</sup>

### *Operation Breakthrough*

The Act also authorized the Secretary of HUD to plan for the development of new building technologies that would make the mass production of housing viable and the ambitious production goals a reality. To this end, Secretary of HUD, George Romney announced Operation Breakthrough in the spring of 1969. Romney predicted that by the end of the seventies, "industrialized housing [would] dominate the market" and there would be entire house subsystems adhering to uniform codes that would permit their use anywhere in the country.

The Commission on Urban Problems had foreseen the barrier to the success of a national housing industry. The Commission concluded that "this chaotic condition [being a lack of uniformity in building codes] prevents the effective application of modern mass-production methods and the adoption of new products and techniques. It is localism, provincialism and so-called home rule gone wild."<sup>4</sup>



Nevertheless, HUD's request for proposals under Operation Breakthrough resulted in 236 responses, most of which came from companies new to the housing industry. Initially 22 contracts were awarded for the development of 2,796 units at 11 demonstration sites. Because no uniform national building code had been adopted, denials and delays in obtaining local building permits needed to place the industrialized, experimental housing at the sites assigned to the participating companies became problematic. Only one year into the program, many of the participating firms had failed financially and gone out of business. Many others had abandoned their efforts under Operation Breakthrough.<sup>5</sup>

From 1969 to 1973, at which time the program was suspended, Operation Breakthrough had produced only 25,000 housing units at a cost to the government of \$72 million. During the same period, however, there was already an industrialized housing sector with expansion capability at work. In 1968 317,950 mobile homes were produced, accounting for 26% of the housing starts in that year. The production of these homes occurred in controlled factory environments using assembly line techniques. In 1972, the mobile home industry produced 575,940 units, 30% of the total single family units produced that year. The industry increased its share of the single family housing market and its production increased by 81% in four years. A total of 2,500,000 mobile home units were produced from 1969 to 1973 at no direct cost to the government.<sup>6</sup>

To understand why this success has not ultimately led to full legitimization of the mobile home product as a housing

alternative, it is important to review the evolution of the mobile home.

### *House Trailers*

The first house trailer made its debut around 1924, designed to be towed behind an automobile and used for camping and outdoor recreation. An industry was born. Large scale production of the house trailer was under way by the early 1930's and by 1935 25,000 units per year were being made. Although the house trailer was designed for recreational use, many people viewed the product as a housing alternative, and by the late 1930's as many as 300,000 people were residing in trailers. By 1937, only half the production was destined for leisure use, the remainder being sold as primary living units. Retirees (35%) and migrant workers (15%) were the principal purchasers, in spite of the small size, the cramped interiors, and the lack of bathing or toilet facilities. The trailer industry itself was divided on whether it was in the vacation trailer or residential house trailer manufacturing business. The proponents of the latter recognized the needs of transient workers and gypsy retirees wanting to take their living quarters along with them.

During World War II the house trailer played a significant role in housing military personnel and construction workers. During that period the federal government purchased 38,000 units for that use. By executive order, house trailers were only available to war industries and the National Housing Agency, and not to private citizens,

but "The Science Newsletter" suggested that "in the postwar era we may look forward to being able to purchase these haul-away homes at low cost."<sup>7</sup>

Because they weren't designed for continued use as residences, safety and quality issues were quick to surface. The trailer house was not a durable residence, but the product demand for that purpose was strong. The first trailer house to be manufactured with bathroom facilities was in 1948, as the wartime temporary housing use was coming to an end. By 1950, 45% of the units sold were used as stationary primary housing, 50% were used as transportable permanent residences, and just 5% were used for vacation and travel use. In 1953, an estimated 1.8 million Americans resided permanently in 700,000 trailer houses.<sup>8</sup>

### *Mobile Homes*

As use of the product evolved, the licensing requirements were slow to change, and trailers used as residences were still treated as over the road vehicles. Therefore, they escaped the requirement of compliance with locally adopted building codes.

The introduction of a ten foot wide "mobile home" in 1955 was a turning point for the industry. This two foot increase in width enhanced the liveability of the trailers but rendered them too wide for normal road travel. Later in the 1950's, the twelve foot wide model appeared. With the advent of trailer house models that could not be hauled along the

highway by a family automobile, the trailer house had evolved into the mobile home.

The next decade produced mobile home sales of 2,000,000 units; 103,000 units in 1960, increasing to 412,690 in 1969. Sales continued to rise, reaching an all time high of 575,940 units in 1972.<sup>9</sup> The mobile home industry had emerged as a major supplier of housing units in the U.S. Nevertheless, all was not well in the industry.

The vehicular status of the mobile home had rendered it immune from institutional controls giving the industry an unparalleled advantage in the housing market.<sup>10</sup> Compliance with the ANSI Code that had previously been adopted by the industry was a voluntary production standards guideline and was often ignored by manufacturers.

California started charting an independent course with respect to mobile home standards in the late 1950's when the legislature adopted state-wide health and safety standards for mobile homes. Shortly thereafter, California became the first state to adopt construction standards for mobile homes.<sup>11</sup>

#### *HUD Code*

A high incidence of fires in mobile homes nationally, coupled with complaints of inferior quality and low durability of trailer houses prompted industry groups to introduce and support a mandatory building code regulating the construction of the mobile home product.

In 1974, HUD adopted the National Manufactured Home Construction and Safety Standards, a national building code

specifically for mobile homes. Effective in 1976, the so called HUD Code preempted local building codes, "enabling the industry to build homes efficiently to one universal code rather than to two to three thousand local codes."<sup>12</sup> The HUD Code mandated performance standards and in-plant inspection and testing of units during the construction process to guarantee adherence to the standards dictated in the Code. Adoption of the HUD Code did much to upgrade the mobile home product in terms of fire safety, durability, and energy efficiency. It is still in effect.

#### *Manufactured Homes*

Housing produced in a factory setting rather than on the site where it will serve its function is generically referred to as factory built housing. There are, however, two types of factory- built housing that should be distinguished: Modular and Manufactured.

Modular Housing is factory-built in accordance with state or regionally adopted building codes. These units arrive at the destination site in various stages of completion, allowing for on-site inspection of structural and mechanical elements by local code inspectors.

Manufactured Housing is factory-built in accordance with the HUD Code. Because the HUD Code preempts all local codes, the unit arrives finished, with plumbing and wiring elements already hidden from view inside the walls, and ready for connection to the site utility stubs.

Beginning in 1980 all federal document reference to

mobile homes built in accordance with the 1976 HUD Code was changed to Manufactured Home. In this paper, factory-built homes adhering to the HUD Code will henceforth be referred to as Manufactured Homes or Manufactured Housing.

Pitched roofs, horizontal clapboard siding, and conventional double hung or casement windows make today's manufactured homes more house-like in exterior appearance than ever before. The single wide units, typically ranging from 12 to 16 feet wide and up to 70 feet long, suffer from a rifle barrell appearance which is sometimes mitigated by the siting of the home or by the addition of a porch or carport. To achieve larger and more aesthetically pleasing homes, two or more sections can be joined at the site. The resulting double wide homes are often indistinguishable from conventionally built ranch style homes, both outside and inside.

Research and application of new technology has resulted in a constantly changing product. For example, a California manufacturer has designed a two-story home that meets the requirements of the HUD Code.<sup>13</sup>

Today's regulated manufactured home is far removed from its house trailer beginnings. It is limited in dimensions only to the maximum width, height, and length permitted on the highways over which it must be transported. It is limited in design only by those dimensions, the performance standards of the HUD Code, and the imagination of the designer.

### 3 Perceptions and Beliefs About Manufactured Housing

#### *Step Child of the Housing Industry*

Since 1975 the production of manufactured home units has fluctuated between 200,000 and 300,000 units per year. In 1987 manufactured homes accounted for 12% of all housing starts and 80% of all new homes priced under \$50,000. This housing form achieves the greatest production efficiency, hence the lowest cost, of all housing products. Therefore, on the basis of production cost alone, this product should be sought after by home-buyers on the low end of the home-buyer economic profile.

In spite of these facts, the mobile or manufactured home is regarded by many as a stepchild to the housing industry and is often referred to as a product outside the housing sector. For example, the statement that "with the exception of mobile homes, the industrialization of housing never will be achieved on a par with the mass production of automobiles and other consumer items given the variation in local building conditions and preferences"<sup>14</sup> acknowledges the industrialization achievements of the mobile home industry, but does not regard these achievements as the industrialization of housing.

The bias against mobile homes as a competitive housing product is rooted in the history of the trailer house and the mobile home. Numerous prejudices and objections have been raised against the mobile home leading to its exclusion from

literally thousands of municipalities. The most common objections raised against them are that: they are not aesthetically pleasing, they adversely affect the value of neighboring property, they present public health and safety problems, that their occupants are transients and undesirables, and that they do not pay their fair share of taxes to cover the cost of municipal services they require.<sup>15</sup>

#### *Common Public Beliefs About Manufactured Home Living*

The history of manufactured housing has led to the negative perceptions and images of manufactured homes and manufactured home living harbored by many. Many of these historically based perceptions are innapropriate in the context of the advances that the industry has made, particularly since the implementation of the National Manufactured Home Construction and Safety Standards (NMHCSS or HUD Code).

However, the industry has done little to dispell these negative perceptions and images. "A...serious matter is the industry's gigantic inferiority complex. We, within the industry, see our homes as a cheap substitute for the real thing. It is apparent in the way we display, advertise, promote, and sell our homes."<sup>16</sup> A manufactured home pulled onto a retail sales yard along a highway, without the benefit of decent steps, much less an inviting residential setting, is a common sight but not one that represents a marketing approach. The lack of good marketing has belittled the



product and maintained inappropriate perceptions about the product.

Educating the public about the present status of manufactured homes will prompt more housing consumers to investigate, consider, and purchase manufactured homes. "Each year we provide more than a quarter of a million families with the realization of the American dream of home ownership. These families have figured out what more and more Americans will come to understand: that mobile/manufactured homes are unmatched in the lifestyle they offer for an affordable price."<sup>17</sup>

#### *Satisfaction With Manufactured Housing*

In fact, housing consumers who have discovered the manufactured home are generally satisfied with their homes. A survey conducted by the Foremost Group of Insurance Companies<sup>18</sup> found that 87% of manufactured home owners are satisfied with manufactured home living, with 52% describing themselves as "very Satisfied." Within Massachusetts this study reported even more favorable results, with 94% of manufactured home owners satisfied and 69% "very satisfied."

The major advantages cited by owners of manufactured homes in the national survey were:

Low purchase price and low maintenance	55%
Less upkeep	32%
Compact with well utilized space	17%
Movability	15%
Like the park setting	8%
Instant house	8%

The major disadvantages cited were:

Small size and inadequate storage	36%
Construction quality	28%
Poor quality	15%
Fire and storm damage potential	13%
Depreciation	6%
Appearance	4%

In spite of the high degree of satisfaction recorded in this survey, the disadvantages relating to quality, insulation, and fire and storm damage potential have not been eradicated by the HUD Code or by the industry acting independently. "Even as manufactured housing is regarded as the best housing buy in America by many experts, it is burdened by a negative image held by a majority of families."<sup>19</sup> The cited disadvantages must be addressed by the industry. Product design and safety issues must not be ignored if the industry is to succeed and grow.

In 1985 the top 100 manufactured home dealers, who accounted for the sale of 65,000 units with a value of 1.25 billion dollars were surveyed and asked,

"In your opinion, what is the main impediment to the sale of more homes this year?"

The following responses were cited:

Lack of suitable sites for placement	19%
Zoning	20%
Financing	23%
Unemployment	12%
Unqualified Sales Personnel	6%
Poor Mobile Home Image	5%
Design, Service and Price	4%
Other	4%

This survey cites the responses of dealers who are deriving their answers from consumers considering the purchase of a manufactured home. It is clear from these survey results that the group considering the purchase has overcome the quality, durability and image issues often associated with mobile homes. They are constrained primarily by lack of placement and financing opportunities.

Although current manufactured home residents and prospective buyers are largely satisfied, the image problem cited seems to be a deterrent to wide public and regulatory acceptance. Therefore, some would-be buyers are constrained by lack of placement opportunities, although they found the manufactured home product itself acceptable.

A total of 39% of the responses cited manufactured home placement issues; either a lack of suitable sites for rent (or for sale) on which to locate the homes (19%), or zoning (20%).

Twenty three percent of the responses cited financing as the main impediment, pointing to the disparity between interest rates for site built homes and for manufactured housing not located on its own property.<sup>20</sup>

### *Limits to Sales of Manufacture Housing*

During the 1960 to 1975 period, the percentage of Americans occupying mobile homes more than tripled, from 1.4% to 4.6%. During those years the industry maintained annual production at 12% of the stock of existing occupied mobile home units.<sup>21</sup> This rapid growth period has not been sustained and output is now relatively constant at approximately 250,000 units per year. "The levelling off of the trend in mobile home shipments since 1974 suggests that the stage of most rapid diffusion may now be past and that the market for mobile homes is near a point of saturation..."<sup>22</sup>

The manufactured home industry does not agree that the market for the product is saturated. "There is a huge market, which includes the balance of the baby boomers, people who are moving up from their first and satisfactory mobile/manufactured home ownership experience, and the growing elderly population."<sup>23</sup> Moreover, John W. Whitney, founder Jon Whitney Associates, Inc., Austin, Texas, a firm specializing in the mobile/manufactured housing industry, predicts that "the mobile/manufactured home industry could reach and maintain a 20% share of all housing in the next 10 years, which would require 4 million homes, an average of 400,000 mobile/manufactured homes per year."<sup>24</sup>

The Foremost Survey demonstrated that a lack of placement opportunity is the major impediment to increased sales and industry expansion.

#### **4 Manufactured Home Communities**

##### *Where To Place the Manufactured Housing Product*

The problems of parking and placement accompanied the advent of the travel trailer and its evolution into the mobile home. Travelling families required overnight or vacation parking spaces and migrant workers and retirees required sites on which to park their units for longer periods of time, often permanently. The use of house trailers as permanent dwelling units was unanticipated by the industry. Land development providing sites for the units to be used as permanent residences did not keep pace with the demand.

Mobile home dealers needed large lots for the display of their product, and the buyers of the home needed an inexpensive and convenient place to locate the unit they were purchasing. Many dealers, therefore, located their sales lots on the outskirts of communities where land was cheap and plentiful and operated both a sales lot and mobile home park on the premises. Densely occupied trailer camps were viewed by those outside the encampments as unsanitary, unattractive groupings of tenement trailers occupied by wandering retirees or migrant workers. As the central communities have grown, the mobile home park/sales lot has often been surrounded by

new commercial or industrial growth so they are out of place as residential communities.

In 1936 an industry group, the Trailer Coach Manufacturers' Association, was founded to develop standards for mobile home park development and to foster a supply of developed land to accommodate the mobile home product. The TCMA (renamed the Mobile Home Manufacturers' Association in 1953 and then the Manufactured Housing Institute in 1975) continued its efforts to create parks into the early 1970's. The in-house staff provided design, financing, and other assistance in the creation of park sites. Without these efforts the industry probably would not exist today. The organization ceased its direct involvement in land development in the early 1970's, having left that function to the private sector.<sup>25</sup>

The private sector developers of mobile home parks no longer had their trade organization providing guidance in park planning or finance. Local zoning and land use laws regulated the development of parks, but only California had state-wide regulations. To this date, only three states have created state-wide park development standards.

In 1955 HUD started insuring park development loans under Section 207 of the Housing Act. Nevertheless, up to 1961, only a half dozen applications were received and only one was processed to the point where construction actually took place. During the 1970's the FHA loan terms were more competitive and between 1970 and 1980, 60,000 spaces were constructed Section 207 financing.<sup>26</sup>

With more than 250,000 manufactured home shipments per year, the need for land development to accomodate these homes continues.

#### *Forms of Tenancy Chosen by Manufactured Home Owners*

The manufactured home requires all the site attributes and locational qualities demanded by site-built residences. Many tenancy arrangements for that site are available to the manufactured home buyer. Home owners choose a tenancy arrangement that meets their specific needs and circumstances, or simply the one that is available for siting the home. The options include: own property, someone else's property, a Manufactured Home Land Lease Community, a Manufactured Home Co-op or Condominium, or a Manufactured Home Subdivision.

#### Own Land

In 1984 34% of manufactured homes were located on the home owner's own land. In 1987 that percentage had increased to 36%, possibly as a result of the increased affluence of manufactured home owners. The National median income rose from \$16,000 in 1984 to \$17,500 in 1987, and the number earning over \$30,000 rose by five percentage points.<sup>27</sup>

#### Leased Land

In 1987 58% of manufactured home owners located their homes on land they did not own: 40% were in parks, 18% were on

someone else's private property. In 1984, 59% of manufactured homes were located on land other than the home owner's; 44% in parks, 15% on someone else's land.<sup>28</sup> The stability of the total statistic indicates a majority of home owners prefer locating on land leased from another, a situation not normally available to a site built home owner.

The land lease community, or park, is the most common form of manufactured home placement. A home owner leases the space on which his home is located, making monthly payments to the community operator. In 1987, 40% of manufactured homes were located in land lease parks, down from 44% in 1984. This decline may be due in part to an increase in average monthly lot rents from \$121.00 to \$138.00<sup>29</sup> or to a lack of adequate supply of park spaces.

### Cooperatives

Co-operative parks are usually formed as the result of the imminent sale of an existing land lease community to a third party. There is some sentiment among park residents that in order to "control their own destiny" it is in their best interest to purchase the community, with each resident owning a share in a cooperative established for the purpose of owning and operating the community. In 1987 only 1% of manufactured homes were located in co-op parks, unchanged from 1984.



## Subdivisions

A manufactured home subdivision is little different from a site-built home subdivision. The home buyer purchases both the home and the underlying land. In 1987, only 5% of manufactured homes were located in subdivisions, down from 6% in 1984.<sup>30</sup>

### *Today's Manufactured Home Land Lease Community*

The Manufactured Home Land Lease Communities (called parks in this paper, for convenience) being developed today "are so attractive and well maintained that they vie with traditional housing developments in appearance and amenities."<sup>31</sup> The parks fall generally into two categories: retirement, service-oriented parks; and family, housing-oriented parks.

### Retirement Communities

Retirement communities are service-oriented and often restricted to the residents 55 years and older. Eighty five percent of retirees don't move more than 25 miles from the home they occupied during their working lives,<sup>32</sup> so retirement parks are found outside Florida. Services are numerous in many retirement parks, with a variety of social activities and athletic facilities sometimes including swimming, tennis, and golf. Some park operators are expanding these base services to include limited medical offices for visiting doctors and

other facilities addressing senior citizen needs. A clubhouse in retirement communities often becomes the social focus of the community residents. The most important asset of a retirement community can be the sense of community, closeness, and mutual dependence. It is ironic that the trailer park, long ago thought of as a place of danger and filth, is now desired as a place of safety and comfort by many of the nation's elderly. These retirement communities place no additional pressure on local school systems, and are often well received by the hosting municipality.

#### Family Communities

A family park is a community that is not age restricted and thus allows children. Family parks generally have fewer amenities than retirement parks. The important aspects of the family park are the home ownership opportunity, the detached unit living environment, and community attributes including recreational facilities and proximity to jobs and schools. Family parks generally require more of a town's services than do retirement parks.

The density of recently developed mobile home parks generally falls into the 4 to 10 unit per acre range. The scarcity and value of land as well as the local regulations and presumed market preferences will guide the ultimate density developed.

## 5 Regulation Of Manufactured Home Parks

### *Planning For and Against the Development of Mobile Home Parks*

*The mobile home park image is worse than that of the mobile home itself. The park perceptions many of us harbor are of shoe box dwellings poorly and densely sited in inferior residential areas or located in highway commercial and industrial zones. These older, seemingly misplaced parks help to maintain the public's highly negative image of the mobile home park.*

*The placement of mobile homes is the topic of ongoing debate, as the mobile home industry enters its seventh decade. Some jurisdictions that have previously excluded mobile homes are now, as a result of either legislation or court mandate, required to accept manufactured homes on a parity with site built homes. Zoning restrictions against manufactured home placement are being challenged and pierced as the mobile home product changes, matures, and more closely resembles the majority perception of site-built housing. According to Geller, "the need for economical housing will see ever-increasing acceptance of individual mobile homes and mobile-home parks...and other techniques that trim the cost of development. Courts will be less tolerant of questionable planning exactions and zoning restrictions that bear no rational relationship to the need for decent and affordable housing. More can be expected of the courts until the other branches of government meet their obligation."<sup>33</sup>*

In spite of recent progress in many state legislatures and courts, acceptance of manufactured home units as residences is far from universal because the mobile/manufactured home industry has never been able to shed the shadow of its beginnings. Nevertheless, a national survey of 1,030 communities conducted by the American Planning Association in 1985 indicates that attitudes are changing. Fifty two percent of the municipalities responding permitted manufactured homes by right in residential neighborhoods, up from less than 1% in 1970. While many communities are now more receptive to manufactured housing than they were, they have simultaneously made their standards for manufactured home communities more stringent.<sup>34</sup>

The planners and regulators forced by judicial decree to approve new mobile home park developments, might find that the "old trailer camps, offensive to city planners, exist because new parks, which would push them out of business, are not allowed to be built; new parks are not allowed to be built because city planners are concerned about them becoming old trailer camps."<sup>35</sup>

There has been much controversy about the placement of manufactured homes over the years. The ambiguity of the unit itself both helped and hurt the acceptance of this housing product. As a vehicle, its right to exist on the land was not based on conformance to building codes. As a structure, it claimed to be at least as habitable as many of the dwelling units already permitted and occupied in the locality. The principal exclusionary device used against mobile homes has been the zoning ordinance, on the basis that parking a mobile

home is a use of land.<sup>36</sup> In many jurisdictions zoning has precluded mobile homes on single lots as well as in mobile home parks.

Where mobile home parks have been allowed, there have often been placement restrictions confining them to commercial zones on the grounds that the operation of a park is a commercial enterprise.<sup>37</sup> This location has satisfied some park operators who have used mobile home parks as income generators while a higher and better use for the land evolves.

Conditional Use Permits have been used to allow development of limited duration manufactured home communities, with the end result being an inevitable coalition of tenants fighting to retain their status on the land. In Massachusetts, Tenants' Associations in Land Lease Communities have been granted the right of first refusal if their parks being offered for sale. This legislative measure, while protecting the tenants occupation of the land, often leads to Tenant Associations paying the escalated price of a higher and better use, but retaining the manufactured home community use. The result is that rents are increased, operating and financial risks are incurred by the park tenants, and they are in an ownership and overhead position they either could not or would not accept when they began their tenancy in the park.

In 1961 the American Society of Planning Officials (ASPO) recommended that the mobile home be planned for, rather than against, recognizing its importance as a housing alternative to millions of people. Inclusion of mobile homes and parks in comprehensive community plans would ensure proper placement and regulation whereas exclusion of mobile home parks was

forcing developers beyond the boundaries of controlled and zoned areas. The planners predicted uncontrolled growth of poorly planned parks located inappropriately far from the services required of the residents. Furthermore, haphazard location of parks would become problematic both to adjacent uses and to the park itself, when expanding towns and cities would surround previously remote park locations. In short, manufactured home community locations needed to be planned for and supported by consistent zoning just as other residential developments did.

California and Massachusetts are states with a serious housing affordability problem. California has legislatively created an environment that requires localities to allow development of their share of affordable housing, while leaving production of that housing largely up to the private, for profit sector. Massachusetts, too, has assumed a strong role in assuring that towns provide a minimum of affordable housing.

## California

The early wisdom of ASPO was slow to catch on. It wasn't until 1980 that California became the first state to require local governments to allow mobile homes on lots in residential zones. Although California was first to adopt mobile home park development standards in 1961, it wasn't until 1982 that the state mandated acceptance of mobile home parks in residentially zoned areas. In 1988, California went a step further and prohibited the use of private covenants and

restrictions to preclude mobile homes from residential subdivisions.

In California, "local land use regulations pertaining to manufactured housing must substantially advance legitimate interests of the governing body if they are to withstand careful scrutiny in the courts."<sup>38</sup> California has been a leader in mobile home construction and park development regulation.

San Diego, CA. went farther than simply accommodating manufactured housing as mandated. In 1988 the city created development incentives for manufactured home communities in its effort to meet affordable housing needs. "The bottom line [is that] today's manufactured home has come of age as an affordable, viable housing form which serves the needs of California individuals and communities. In light of the critical shortage of affordable housing in this state, this new enabling legislation fulfills the state Legislature's mandate of providing Californians with affordable housing: 'The legislature finds and declares that manufactured housing, which includes mobile homes, offers Californians additional opportunity to own and live in decent, safe, and affordable housing on a permanent basis'."<sup>39</sup>

To guarantee the affordable housing the California Legislature referenced in 1980, that body passed rent control enabling legislation that affected future projects of at least one California manufactured home community developer.

Commercial Property, of Torrance, California, is the owner and operator of 2,500 manufactured home spaces located in six California parks. Although the vacancy rate of these parks is zero, and the demand is strong, Commercial Property

has not developed a park since 1980. Noble Ouye, the principal of the company, has shifted his development efforts to commercial properties. "If rent control is adopted by a city, as it can do, and it applies to all rental property in the city, fine. But if it only applies to residential, that's not right," Ouye said, "so I'm not developing any more parks."

## Massachusetts

Massachusetts, however, passed no new laws relative to mobile/manufactured homes between 1970 and 1980, and the court cases involving mobile/manufactured housing were specific in nature with no far-reaching effects on regulation of mobile/manufactured home placement.<sup>40</sup> The Massachusetts legislature did adopt a measure giving park residents, under certain conditions, the right of first refusal to purchase their parks if offered for sale by the owner. The Massachusetts Housing Partnership of the Executive Office of Communities and Development encourages park acquisitions by their residents when the opportunity presents itself. But, neither legislative nor judicial mandates have made manufactured housing more available to housing consumers who might benefit from its availability.

### *Existing Manufactured Home Communities in Massachusetts and California*

The Mobile Home Park space inventory in Massachusetts is significantly different from that in California. Both Massachusetts and California have among the highest housing



costs in the nation, thus the greatest affordability problems. Nevertheless, Massachusetts has a modest inventory of mobile home spaces compared to California.

Of the 230 parks identified in "Mobile Home Parks in Massachusetts; A Directory", published by the Executive Office of Communities and Development in 1984,<sup>41</sup> only 21% have 100 more spaces; 23% have between 51 and 99 spaces, and 56% have fewer than 50 spaces, with many of those in the less than 20 category. These 230 parks in 97 municipalities represent 15,630 spaces, the total inventory of park spaces in the state. There are 265 spaces per 100,000 population (based on 1988 estimated MA population of 5,889,000).

California has approximately 465,000 spaces in 6,000 parks, or 1,788 spaces per 100,000 population (based on CA population estimate of 26,000,000). This indicates 6.75 times greater use of manufactured homes in California.

California developers add approximately 50 parks per year representing around 7,500 spaces. One hundred ten California park developments were proposed or under construction at the beginning of 1989. These 110 parks represent 13,800 new spaces, fully 88% of the grand total in Massachusetts.

#### *Majority of Massachusetts Towns Exclude Manufactured Home Entry*

Zoning ordinance treatment of manufactured homes was the subject of a 1986 survey of the 351 Massachusetts towns conducted by the Massachusetts Mobile Homes Commission. The survey showed that by a margin of nearly 3 to 1, towns prohibit new development of mobile homes in parks, and a

slightly larger majority of towns prohibit new placements of mobile homes on individual lots. At least 271 towns (77%) exclude manufactured homes entirely. They are, in popular parlance, zoned out. Fifty six of these towns host 105 parks with 6,507 spaces that predate park exclusionary zoning ordinances. See Appendix 1 for a list of these towns.

At least 21% of Massachusetts towns will permit manufactured home placement in parks, where they will contribute the most toward alleviating housing affordability problems because increased density in a planned manufactured home community and disaggregation of the land from the dwelling result in savings to the housing consumer.

Of the 76 towns that permit manufactured home developments, 41 currently host manufactured home parks with a total of 9,270 spaces. The South Eastern region, as depicted in accompanying FIGURE 1 of Massachusetts, accounts for 3,525 of those, located in 7 towns. The Lower Pioneer Valley region of the state follows the South Eastern region with 1,728 spaces in 8 towns. The Outer Boston Suburbs follow the Lower Pioneer Valley with 1,477 spaces. For a breakdown by region and town, see Appendix 2. Thirty-five towns providing for manufactured home community development currently host no development of this type.

The number of park spaces occupied in each region is higher than the number of spaces in towns permitting parks, because there are parks located in towns that no longer permit park developments. The presence of these spaces, when occupied, indicate additional demand for this housing alternative. The regional park space inventory totals for

Map of Massachusetts by Region

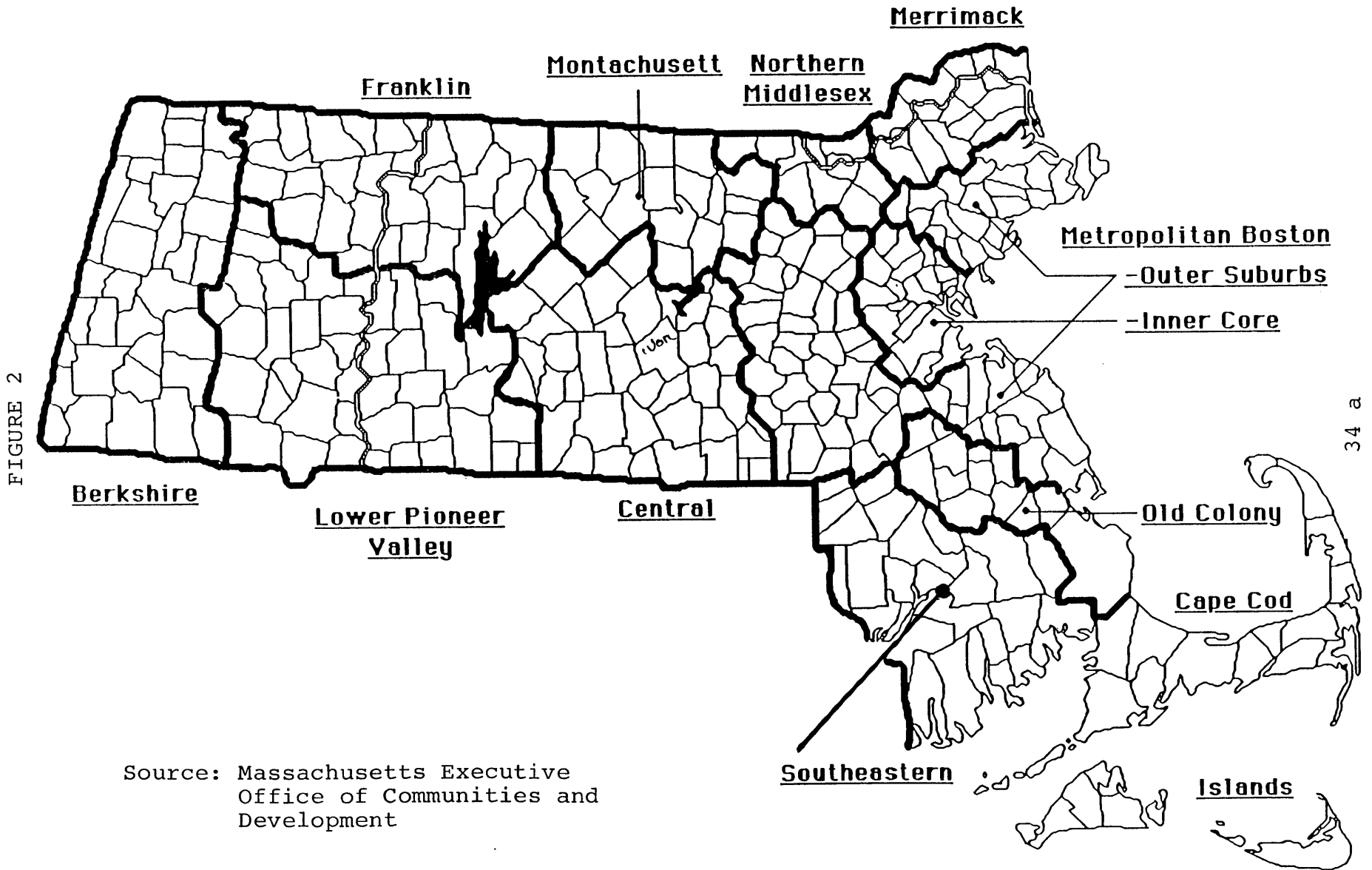


FIGURE 2

Source: Massachusetts Executive Office of Communities and Development

towns permitting and no longer permitting park development are found in Appendix 3.

Only S.E. Massachusetts, the Lower Pioneer Valley, and Old Colony display both a high number of total developed spaces and a high percentage of towns permitting manufactured home park development, suggesting both a demand for and a willingness to regulate in favor of mobile home park living environments.

## 6 Who Lives In Manufactured Homes?

### *Demographics*

The Foremost Group of Insurance Companies, the leading insurer of manufactured homes, commissioned National Family Opinion, Inc. to gather data on manufactured home owners nation wide in 1984 and in 1987. The compiled national and state data indicate a diverse manufactured home population. The data presented in this section, and from which the accompanying graphs have been drawn, are from the Foremost Survey unless otherwise cited.

### Age

FIGURE 2 shows the age distribution of manufactured home owners nationally, and in Massachusetts and California. The national average age of manufactured home owners is 47 years. Forty five percent are 39 years old or younger; 25% are from 40 to 59 years; and 30% are 60 and older.

# AGE DISTRIBUTION

1987 MANUFACTURED HOME OWNERS

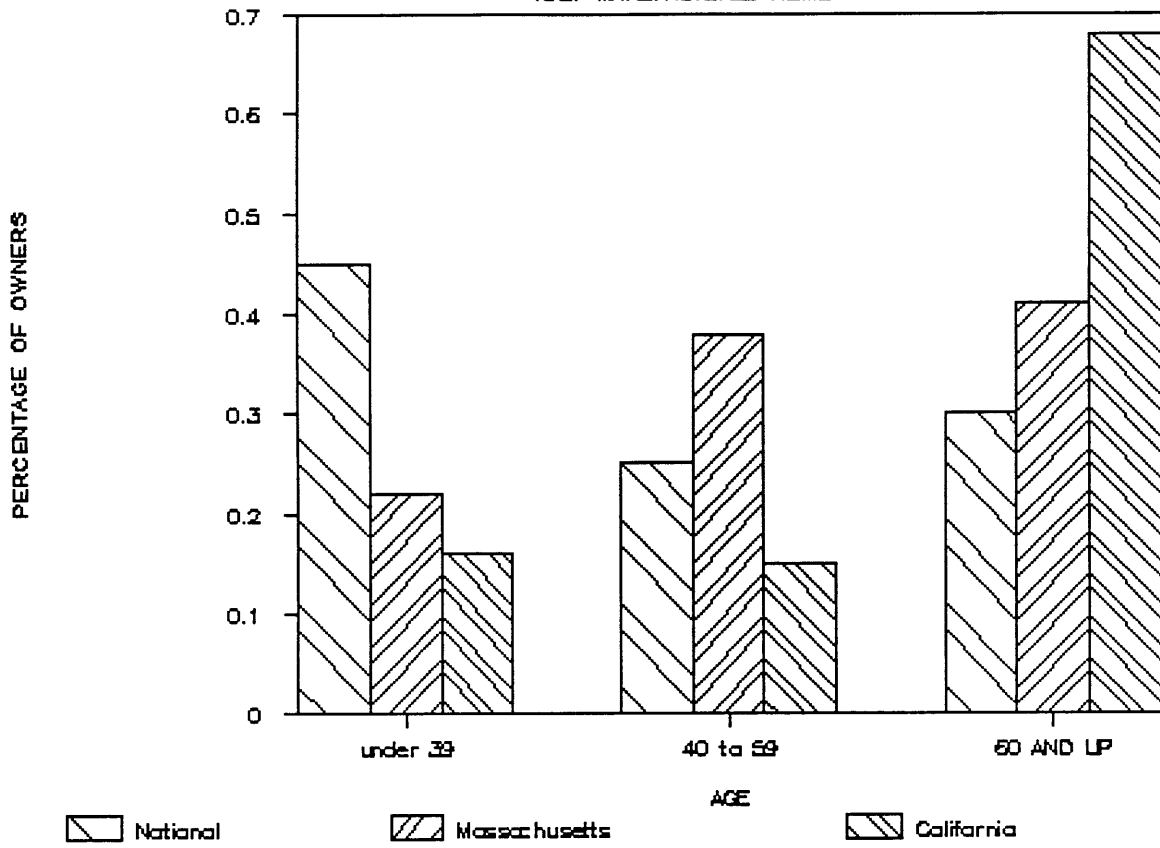


FIGURE 2

In Massachusetts the average age is 53. The age distribution of owners includes: 22% under 40, 38% between 40 and 59, and 41% over age 60.

In California the average is 62. The age distribution of owners includes: 16% under 40, 15% between 40 and 59, and 68% over age 60.

The national distribution does indicate that the young, entry-level home buying, under 40 cohort comprises the largest group of manufactured home owners nationally. The middle group comprises 25% of the manufactured home owners, and are the least represented cohort. The middle years, during which the children are raised and the household income is the highest, presumably take place in site built homes which are often larger, have more yard space, and are more expensive. The 60 and over cohort accounts for 30% of manufactured home owners.

In Massachusetts, under-representation in the entry level cohort can be explained by the existence of age restricted parks, no appreciable park development, and town regulations against placement on individual lots. If 22% of the 900 new homes placed in Massachusetts in 1987 went to the under 40 cohort, then only 198 households directly benefitted from new manufactured home placements.

In California, the relative acceptance of manufactured home living in the state combined with the high cost of conventional houses would suggest that ample supply and demand should exist for the under 40 cohort to enter the housing market via the manufactured home. However, only 16% of manufactured home owners were 39 and under in 1987. With the

average site built home price in 1988 at \$197,000, there is strong demand for lower priced homes. That demand has driven the price of manufactured homes that control a site out of reach for first-time buyers.<sup>42</sup> Nevertheless, in 1987 there were 11,100 new manufactured home units placed for residential use in California, and assuming 16% went to owners 39 and under, 1,776 younger households benefitted from the state's acceptance of manufactured housing.

As a percentage of the state's population, the under 40 cohort access to new manufactured housing in California is nearly double that in Massachusetts.

#### Annual Income

The Foremost Group Study indicates that in 1987 the national average household income of manufactured home owners was \$17,500. FIGURE 3 shows the distribution of household incomes for manufactured home owners: 23% earned less than \$10,000; 35% between \$10,000 and \$19,999; 24% between \$20,000 and \$29,999; 12% between \$30,000 and \$39,999 and 7% earned over \$40,000.

Manufactured homes are owned predominantly by those whose annual incomes are less than \$30,000. 82% fall into this category, confirming that the housing type does appeal to lower income groups. The young and the old age groups are each on low ends of the career earnings curve, making the manufactured home a viable option for both first-time buyers and retirees.

# INCOME DISTRIBUTION

1987 MANUFACTURED HOME OWNERS

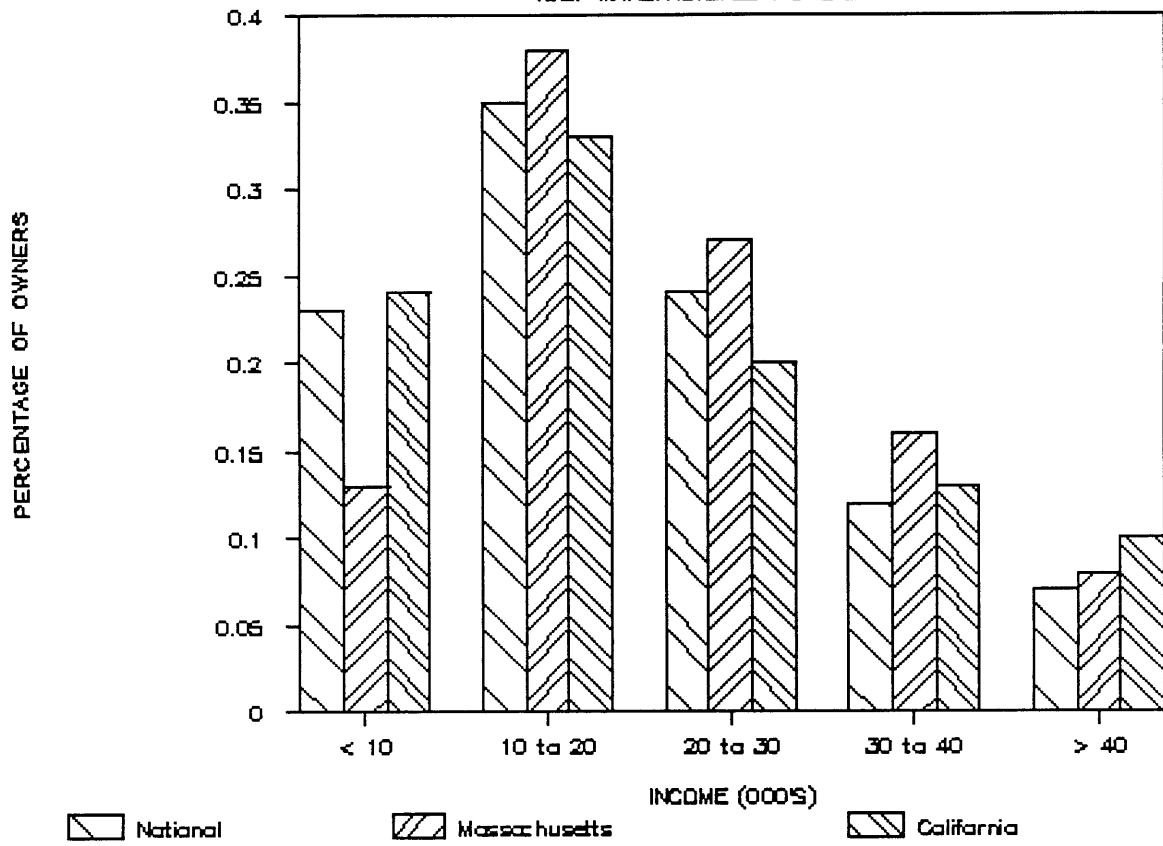


FIGURE 3



The Foremost Data show that Massachusetts manufactured home owners have an average income of \$20,000 with 78% under \$30,000 and California has an average of \$17,500 with 77% under \$30,000. As a home ownership option the manufactured home is therefore being chosen by a group who, with an income of \$18,750 (the average of the Mass. and Cal. averages), could afford to purchase a conventional home priced at \$44,500: this assumes a mortgage on the alternative conventional house for 30 years at 10%, with 25% of gross income allowed for principal and interest only (since insurance and taxes are omitted from the discussion, 25% rather 30% is used). There are few houses at that price in Massachusetts and California with 1987 average prices at \$166,000 and \$197,000, so the purchase of a manufactured home with average price of \$33,400 and \$38,300, respectively, is a housing bargain in relation to the average cost of a conventional home.

#### Previous Residence

The 1987 Foremost Study indicates that nationally, 38% of new manufactured home buyers had previously lived in site built homes and 36% had previously lived in another manufactured home. Furthermore, 18% had lived in an apartment (SEE FIGURE 4). The 38% of new manufactured home owners who had previously resided in site built homes are probably empty nesters or retirees who have made the choice to relocate to a manufactured home.

# PREVIOUS RESIDENCE TYPE

1987 MANUFACTURED HOME OWNERS

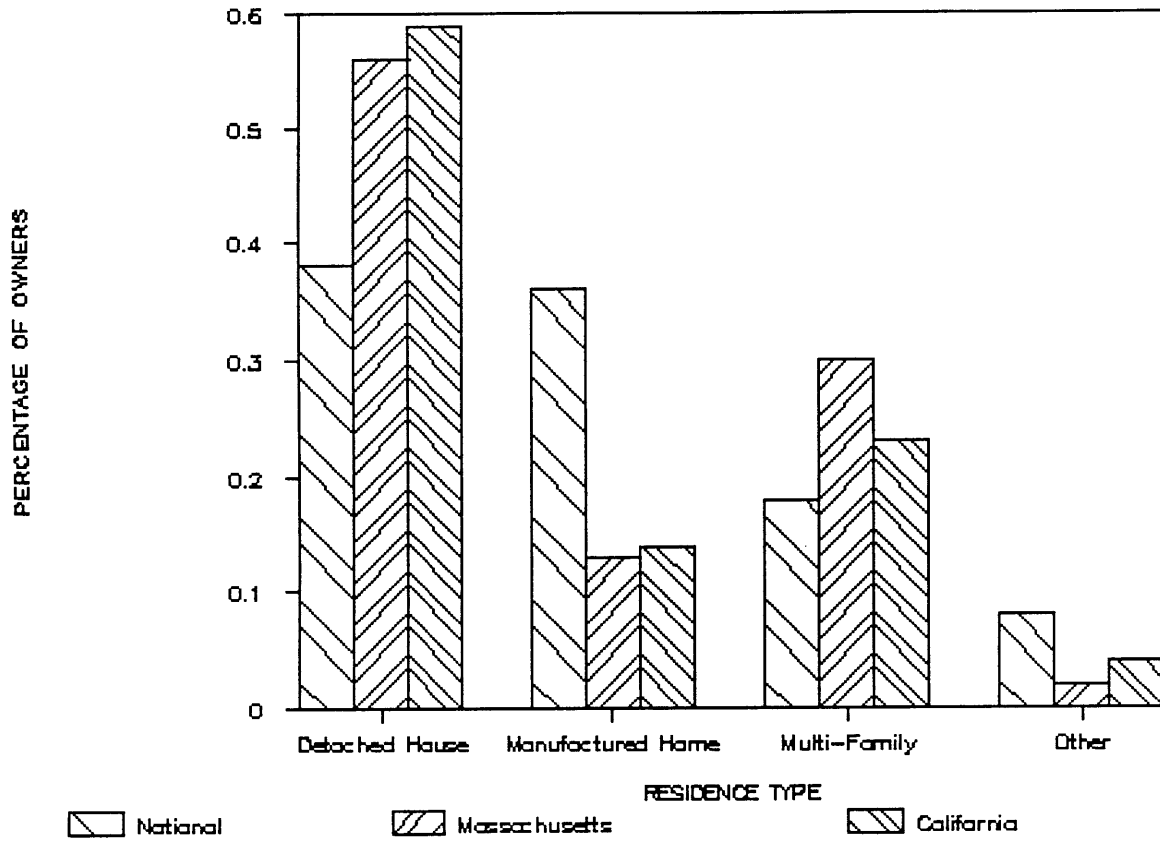


FIGURE 4

In both Massachusetts and California the high percentage of owners who previously lived in site built homes reflects the high percentage of owners who are also retired. Clearly, nationally as well as in Massachusetts and in California, the group most frequently exploiting the advantages of manufactured home living have previously resided in a conventional house, and have chosen a manufactured home as they retire or as their children leave home.

#### Length Of Manufactured Home Tenure

Nationally, Foremost found that 17% of owners planned to stay in their manufactured home for as long as five years. 22% planned to stay 6 to 10 years, 7% for more than 10 years, and 54% said they would be there forever. FIGURE 5 displays this distribution.

The Massachusetts and California statistics indicate a greater stability of tenure than the national norm.

In Massachusetts, 60% percent of manufactured home owners intended to live in their current home forever. Forty percent responded that they would live in their current manufactured home for 10 years or less.

In California 68% said they would be in their homes forever, 30% reported they would stay in their manufactured home for 10 years or less.

In both states, the percentage reporting that they will stay in their manufactured home forever is close to the percentage who are over 60 and retired. The statistics suggest that the manufactured home residents in Massachusetts

# ANTICIPATED TENURE IN HOME

1987 MANUFACTURED HOME OWNERS

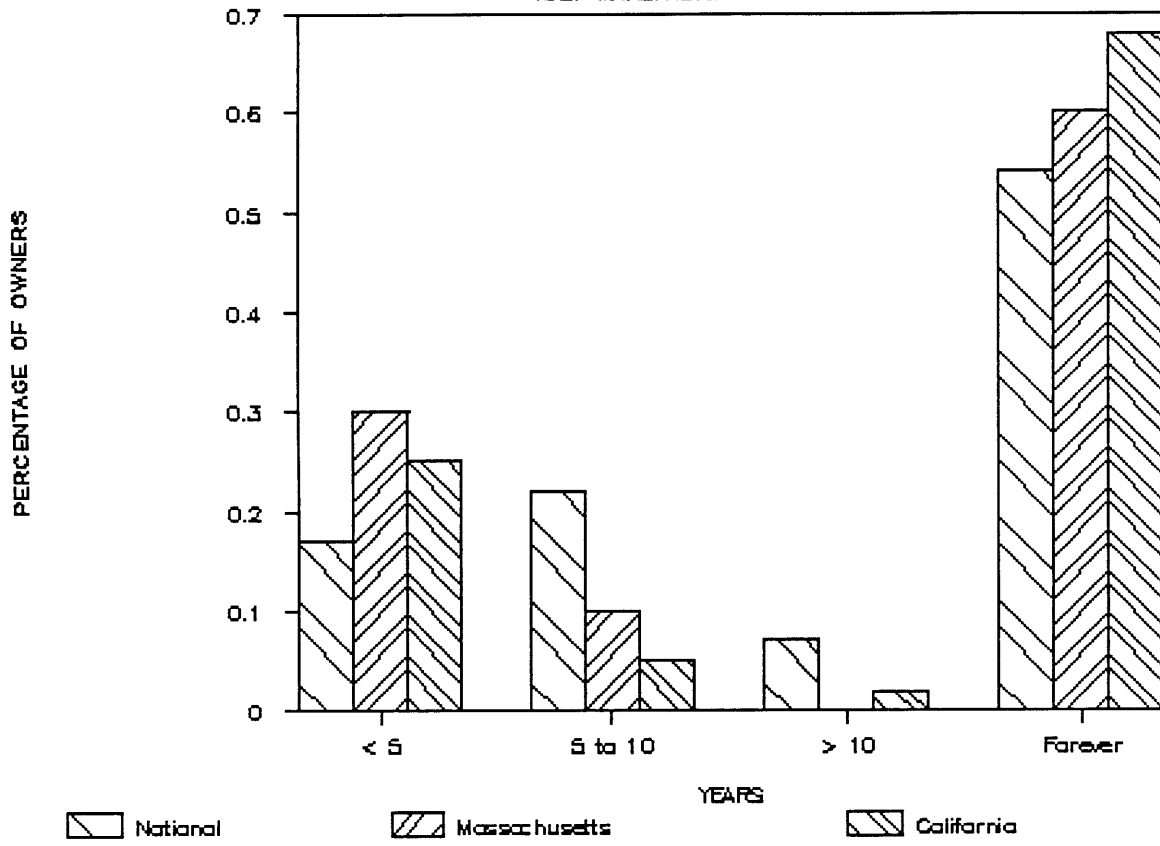


FIGURE 5

and California are either in their home forever or are using the manufactured home ownership as an intermediate step toward conventional home ownership.

*Demand for Manufactured Home Community Spaces*

The pattern of locating manufactured homes on leased land recognized in the Foremost Survey<sup>43</sup> implies that an investment in a land purchase for the placement of the home is, for reasons of cost, liquidity, land availability, or preference, is beyond the capacity or desire of the home owner. These homebuyers create a demand for park spaces. The widespread response to the industry survey indicating limited placement opportunities as a prime deterrent to increased sales of homes indicates potential demand for park spaces.

Manufactured homes account for approximately 5% of the national housing stock. Forty percent of these units are located inside parks.<sup>44</sup> "Considering the pent up demand for inexpensive housing...there would seem to be substantial development opportunity for properly located and planned mobile home projects."<sup>45</sup> The president of Uniprop, an investor and syndicator of manufactured home communities observed that "The demand for [spaces in] quality communities continues to exceed supply."<sup>46</sup>

The situation in California is no different. "The park development that occurs in California in a year's time, adding an average 7,500 spaces per year to the inventory, is inadequate to meet the demand."<sup>47</sup>

Since housing markets are local, demand for park spaces has to be assessed on that basis with knowledge of the local regulatory, employment, growth, and demographic conditions. This will lead to an understanding of the local housing market, including local tastes and preferences. Some conditions suggesting potential demand for manufactured home land lease communities include areas where:

- o there is an entry level home-ownership affordability problem;
- o there are retirees trading homes to free equity;
- o economic growth is occurring faster than stick built homes can be constructed;
- o a manufactured home dealer's sales are constrained by lack of placement opportunities for his products;
- o a manufactured home community already exists that has no vacancies.

*Demand for Manufactured Home Community Spaces in S.E. Massachusetts*

The data discussed in Section 3.3 concluded that only S.E. Massachusetts, the Lower Pioneer Valley, and Old Colony display both a high number of developed spaces and a high percentage of towns permitting manufactured home park development. As stated previously, these data suggest both a demand for and a willingness to regulate in favor of mobile home park living environments.

Vacancy data for existing parks helps to illustrate the demand (or lack of demand) for park spaces. Because the number of spaces hosted is greatest in the S.E. Region, and because that region ranks third in percentage of towns that permit mobile home park development, I surveyed the parks in that region with 100 or more spaces. The cut-off of 100 spaces was used because the economics of park development suggest that a new community must be at least 100 spaces to be financially viable, and I wanted responses from developments consistent in number of units with what a developer might propose at this time.

Of the 49 communities in the state with more than 100 spaces, 29% are located in the S.E. Massachusetts region and comprise 4,137 spaces, or 26% of the total park spaces in Massachusetts.

Nine of these parks responded to a telephone survey conducted during the week of July 15, 1989. The questions they were each asked centered on vacancy and expansion possibilities at the present location. They are included in Appendix 1.

Eight parks reported no vacancies and six said they have waiting lists. The one park reporting vacancy consists of 382 lots, and has one vacant space. This is interpreted as a zero vacancy park.

Two of the communities reported additional land on which to expand, and all with no vacancy said they would expand if they had the land. All but one park indicated that they would expand if they had the land.

Seven of the respondent communities, or 78%, are restricted to those 55 years of age and older, suggesting that the towns are more willing to approve retirement parks than family parks, or that the developers determined that the market to target was retirees.

The parks were developed an average of 15 years ago, and all 9 responding parks are located in towns that still allow manufactured housing in parks, either by right or by special exception.

The 0% vacancy findings coupled with the desire to expand, indicate a demand for manufactured home community land lease community spaces at least as great as the inventory surveyed, and at least for the age 55 and over cohort. I assume that the demand is greater than that baseline. More detailed analysis, including economic, demographic, and social science (relating to manufactured housing perceptions) studies of specific local market areas would have to be conducted to determine how much greater than the baseline that demand might be.<sup>48</sup>

#### *Why Consumers Choose Manufactured Housing*

The Harvard/MIT Joint Center for Housing Studies conducted a study in 1984 to determine "what really motivate consumers to purchase mobile/manufactured homes." The Housing Futures Consumer Survey was reported in the trade publication, *Mobile/Manufactured Housing Merchandiser*.<sup>49</sup> One conclusion is that owning a mobile/manufactured home is an intermediate step between renting and owning a site built home. The



intermediacy of the manufactured home in a land lease community can be viewed from two viable perspectives. First, the purchase price and the carrying costs of the manufactured home in a land lease community can be less than the price and carrying costs of a site built home, but may be greater than renting. Second, the renter who goes from an apartment to a manufactured home has approximated the suburban detached house lifestyle to which many Americans aspire. The pride of ownership of the dwelling unit is achieved, although the land on which the home is sited is leased. The outside space is private, rather than communal, and in newly developed communities, it is generally ample. The manufactured home, therefore, can answer both cost and quality of life concerns of the entry-level, first-time home buyer.

However, the Foremost demographic data for Massachusetts and California indicate that those over 60 elect manufactured homes as a home they will occupy forever. In these cases, the low cost, ease of maintenance, social activities and safe locations drive the decision.

Although it is often assumed that home owner empty nesters and retirees are house rich, with too much space for their needs, this is not necessarily so. Most people in these categories are content where they are, and tend to stay in their homes. Nevertheless, there are cases where downsizing is appropriate, achieving a living situation that is less expensive and requires less maintenance. Another goal of some empty nesters and retirees, in spite of the wealth of many in these groups, is to recapture and leverage equity accumulated in the home. Reverse Annuity Mortgages (RAM's) were designed

for this purpose, but many are reluctant to take advantage of these loans, fearing they will outlive the "income" from the loan.

Some choose the lifestyle in the manufactured home park as a preference to that in an attached housing environment. Noble Ouye, a California park owner and operator, says that the most enthusiastic prospects considering his parks are condominium owners and apartment dwellers. Manufactured home parks provide home ownership opportunity, frequently at a lower cost and with more private outside space than either a condominium or an apartment offers. Ouye elaborates by saying that the condominium fees (above the monthly mortgage amount) can be nearly as high as park rent, so in the condominium situation, the home owner pays for an undivided interest in the common land as part of the unit purchase price, but pays monthly for the facility use and maintenance on top of that. In the manufactured home park, the tenant pays only the all inclusive rental fee.<sup>50</sup>

Entry level home buyers, empty nesters, and retirees can all benefit from the advantages of manufactured homes: easy maintenance, low relative cost, adequate private outside space, and pride of ownership.

#### *Entry Level Home Ownership*

Manufactured homes have historically been financed as personal property rather than as real estate, with higher interest rates and shorter loan terms than for conventional houses. These disparities have been narrowed and FHA and VA

loan guarantees are now available for mobile homes. Although the full range of financing options available to the buyer of a site built house is still not available to the buyer of a mobile home, many viable financing options do exist, and we can safely conclude that the lack of financing cited in the manufactured home dealer's survey (see section 3.2) results from the credit history of the potential buyer or lack of information about financing sources.

Since 1968 home ownership costs have risen 22.5% faster than incomes, making home ownership increasingly difficult to achieve. From 1980 to 1987 home ownership has dropped 2%. This downturn has been of greater magnitude and has lasted longer than any in the past. The 8% decline in the 25 to 39 age cohort is particularly dramatic and represents a large number of first time home buyers. Everyone agrees that the first-time home purchase is the most difficult. The U.S. League of Savings Associations reported that of 14,000 conventional mortgage loans made in 1979, only 18% went to first time buyers. In 1977, first time buyers had accounted for 36% of the loans.<sup>51</sup>

In Massachusetts, the situation is particularly acute. In 1987 the average home price in Massachusetts was \$166,712; an income of \$66,713 would have been required to support a home purchase in that range. In 1987 the estimated mean family income in Massachusetts was \$48,000.<sup>52</sup> Clearly, the mean income will not support the average priced home.

## 7 The Rising Costs of Housing Production

### *The Component Costs of the Housing Product*

Since 1949, housing production costs have increased as a result of the increased cost of the components of the housing product. Increased costs have accrued to producers who have ultimately passed those cost increases on to housing consumers.

The *hard costs* of housing production are labor and materials. The *soft costs* include land acquisition and improvements, legal and permitting fees, financing, marketing, overhead, and profit. The *capital cost* is the total of hard cost and soft cost, and reflects the purchase price to the consumer.

FIGURE 6 shows that during the 1949 to 1986 period, total hard costs have declined as a percentage of capital cost by 35%. Labor declined by 54% in spite of spiraling wages, while materials declined 17% in spite of the introduction of costly amenities not previously demanded.

FIGURE 7 shows that total soft costs during the same period have increased as a percentage of total capital costs by 77%. The profit and overhead element has risen by only 7%. The remainder of the soft costs increased by 144%, with land acquisition and development comprising a major part of the increase.

# HARD COSTS AS % OF TOTAL 1949 & 1986

AND % CHANGE OF THE %

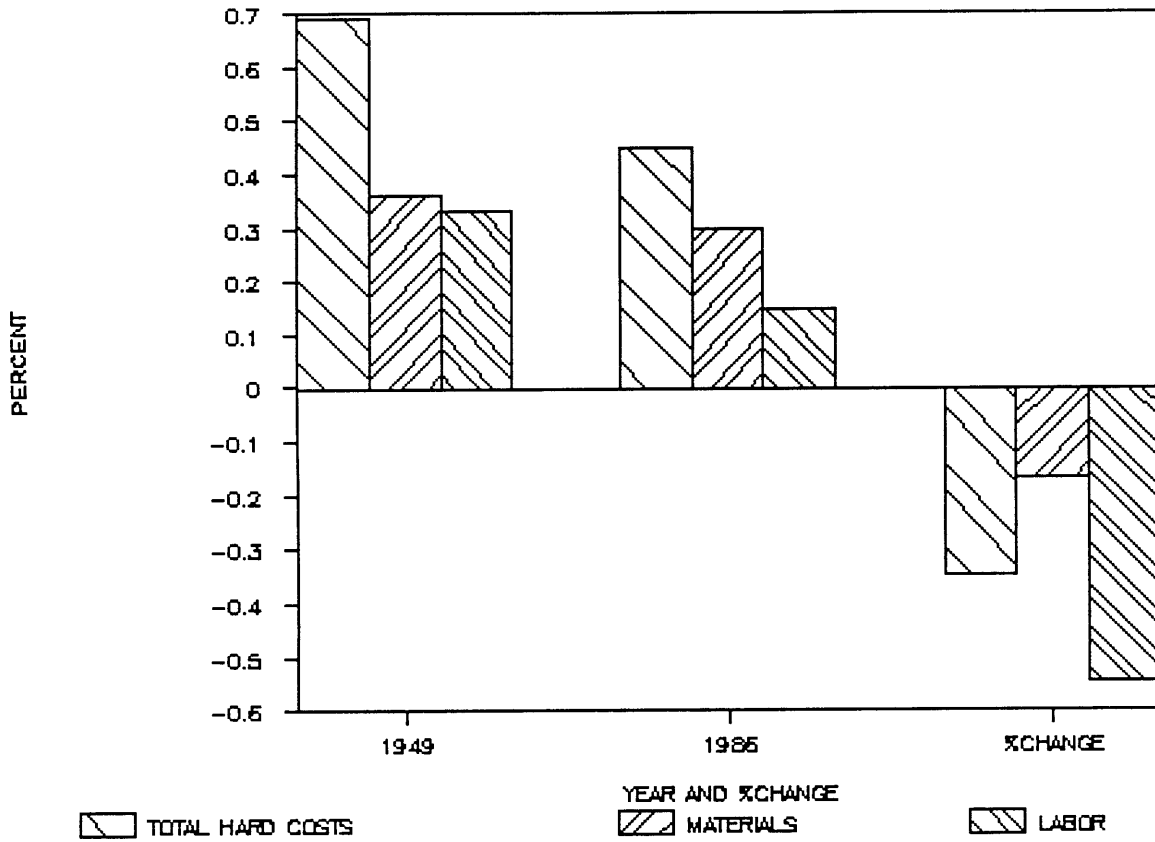


FIGURE 6

# SOFT COSTS AS % OF TOTAL 1949 & 1986

AND % CHANGE OF THE %

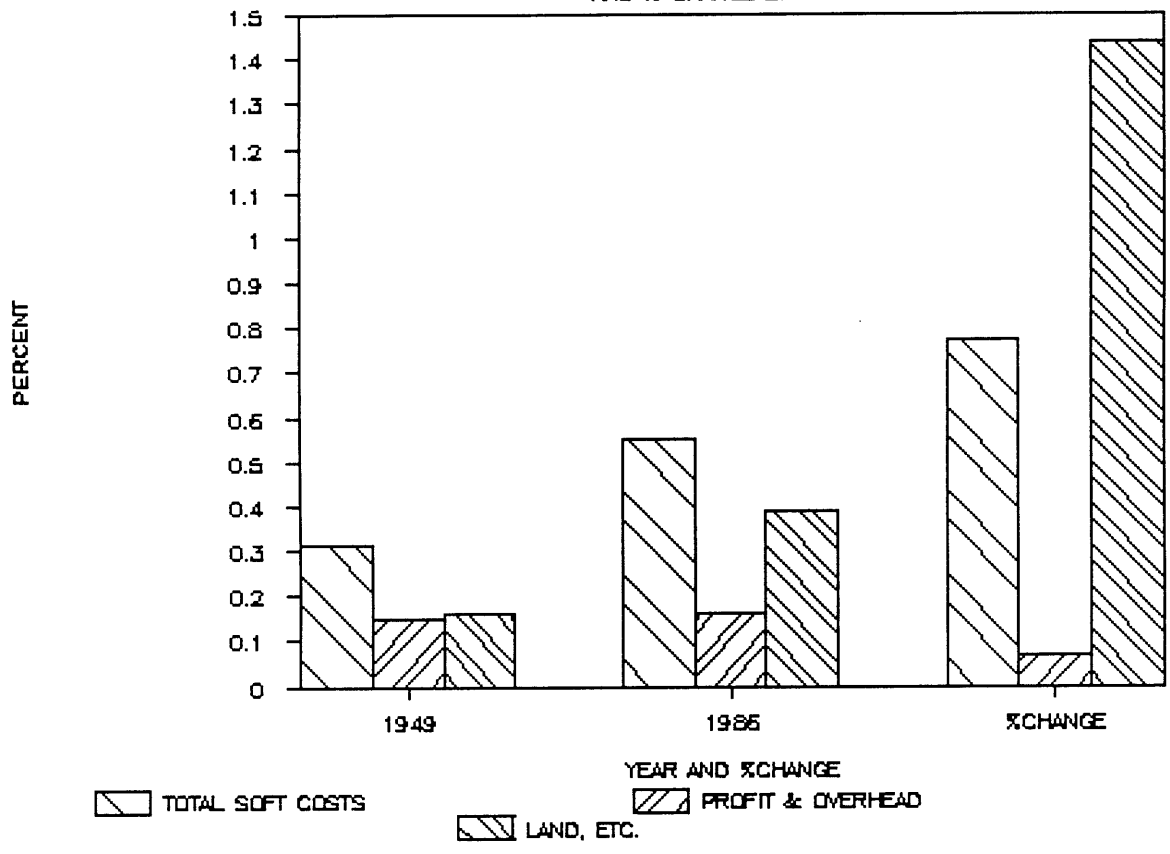


FIGURE 7

To summarize, the hard and soft cost components as a percentage of the total capital costs for 1949 and 1986 are shown as pie charts in FIGURES 8a and 8b.

In 1987 the national average capital cost of a new site built home was \$127,000 and the average size was 1,910 square feet. Using the percentages cited above, only \$57,150 of that amount bought materials and labor ( $.45 \times 127,000$ ). Therefore, the cost of the unit itself was \$29.92 per square foot ( $\$57,150/1,910$ ).

By contrast, the average price paid for a manufactured home in 1987 (both single and multi-section units) was \$23,700. This price represents the unit only, as it comes from the factory. The average size was 1,150 square feet, for a square foot cost of \$20.61 ( $\$23,700/1,150$ ).

The cost of the factory constructed home is 31% less than the site built house, demonstrating that the hard costs can be reduced through factory building in the effort to cut increasing housing costs.

The *overall consumer cost* to the housing purchaser, however, is the sum of the capital cost plus the financing cost.<sup>53</sup>

FIGURES 9a and 9b demonstrate the redistribution of the components of the overall consumer cost. In 1949 the capital cost accounted for 72% of the overall consumer cost and the finance cost was 26%. In 1986, the capital cost had declined to 54% of the overall consumer cost and the finance cost had increased to 46% of the overall cost to the consumer.<sup>54/55</sup>

1949 HOUSING CAPITAL COST  
HARD COSTS SHADED

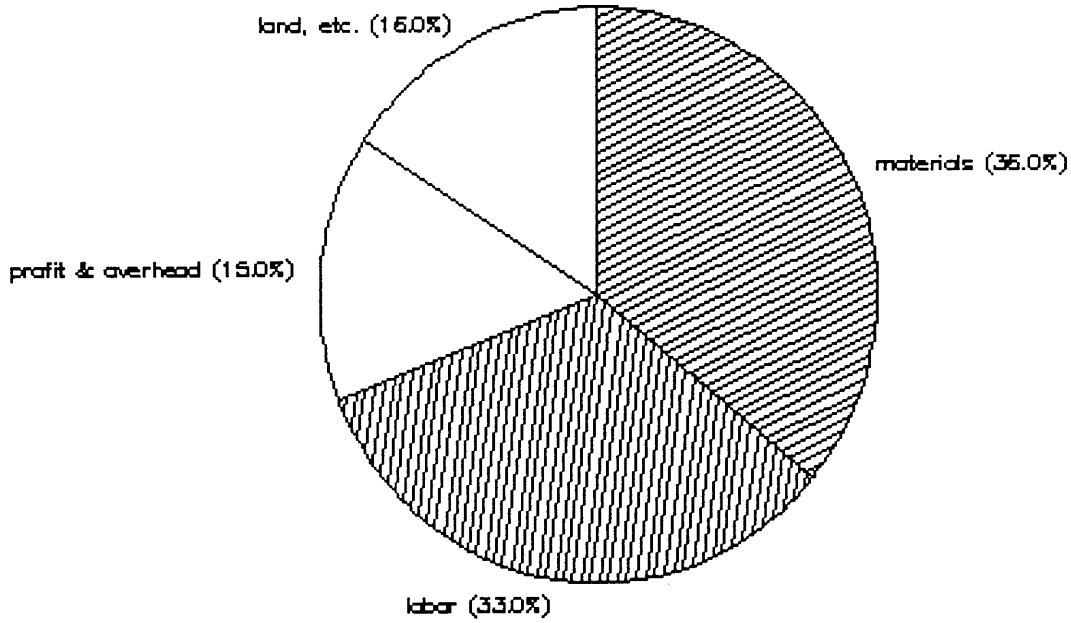


FIGURE 8a



1986 HOUSING CAPITAL COST  
HARD COSTS SHADED

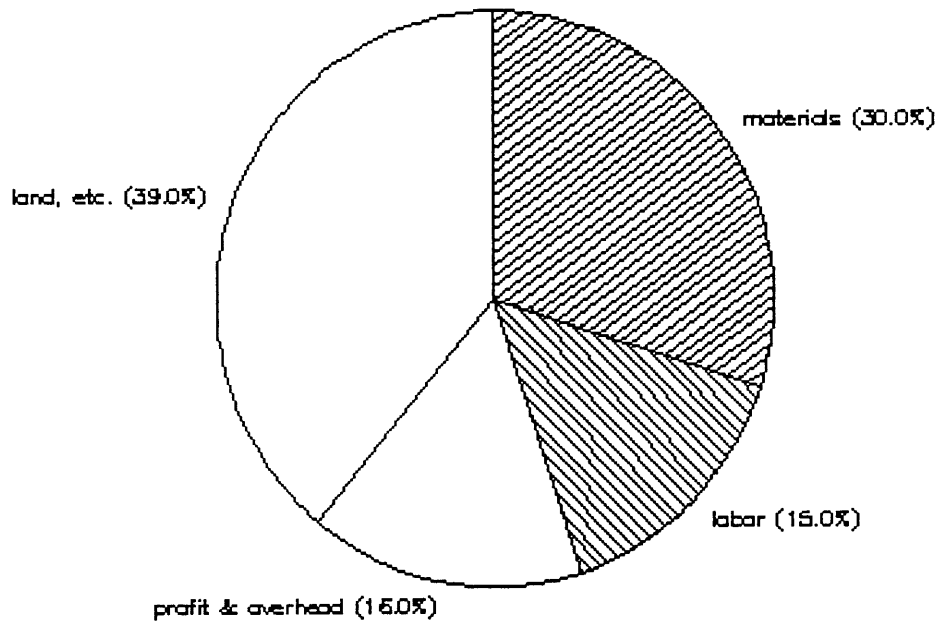


FIGURE 8b

1949 OVERALL CONSUMER COST  
CAPITAL COST SHADED

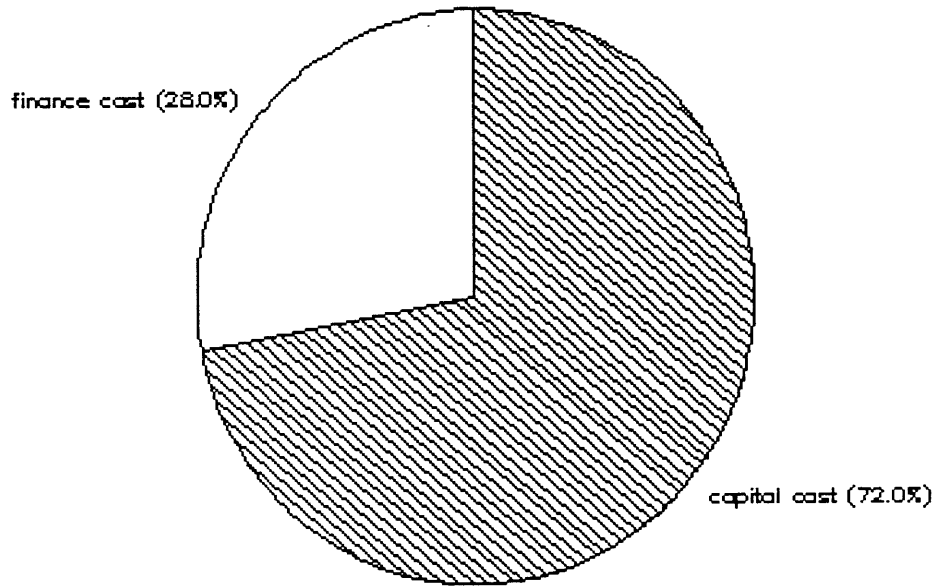


FIGURE 9a

1986 OVERALL CONSUMER COST  
CAPITAL COST SHADED

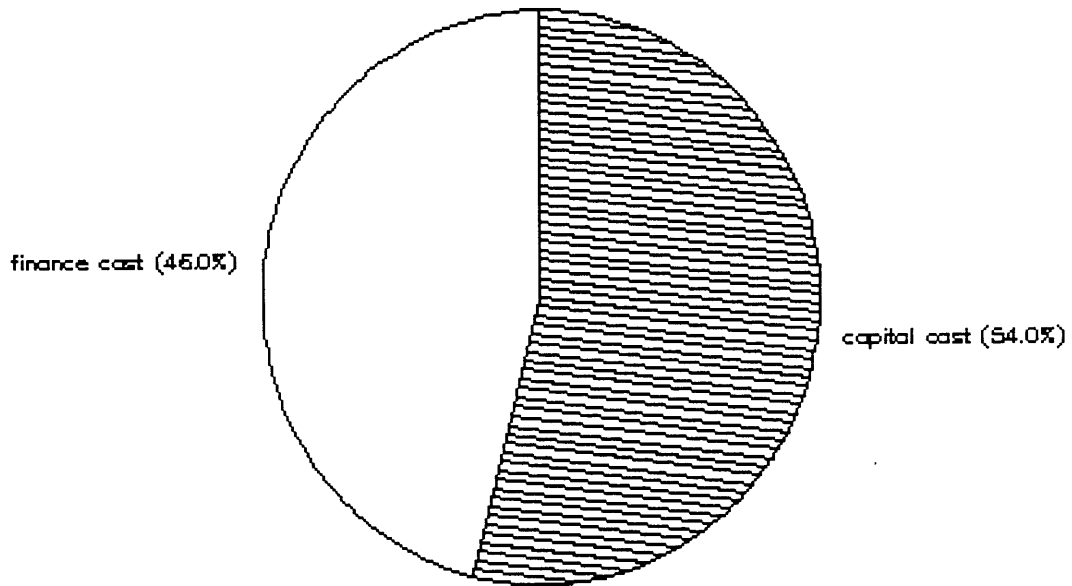


FIGURE 9a

Formal housing affordability initiatives and programs generally attack the consumer financing cost and the producer soft (specifically land) costs rather than the hard costs of housing production.

#### Reassignment of Risks and Costs

In order to stimulate business, and thus home ownership under these price conditions, private sector mortgage lenders have responded to financial impediments to home ownership by reducing required downpayments from the historic level of 25% to as little as 5%. Buyer resistance to high interest rates has been addressed by the introduction of Graduated Payment and Adjustable Rate Mortgages (GPM's and ARM's). These changes in lender policy are merely a redistribution of the investment and interest rate risks. Traditionally, the buyer making a 25% downpayment, was accepting the investment risk that is largely transferred to the lender (or the mortgage insurer) when the downpayment is reduced to 5%. On the other hand, ARM's and GPM's transfer the interest rate risks to the buyer.

Federal and local public sector initiatives and participation in the development process similarly perform cost and risk redistribution functions in an effort to make housing more affordable. For example:

- 1) Interest rate subsidy programs have lowered the cost of home ownership to those who qualify (1st time buyers' programs of state housing authorities based on Mortgage Revenue Bonds, FmHA, FHA rural h loans).
- 2) Tax and financing incentives have been used as carrots to attract private developers into affordable residential development.
- 3) Public/private partnerships have been formed, making publicly controlled sites or funds available to private developers at below market cost.
- 4) Infrastructure costs have been subsidized or shared by communities and developers, reducing developers' costs and allowing lower sales prices.
- 5) Public land has been sold at less than market levels in exchange for affordable housing production, reducing the major capital cost incurred by residential devleopers and allowing lower sales prices.
- 6) Increased densities have been permitted in exchange for inclusion of affordable housing in residential developments, lowering the land cost per unit, allowing lower sales prices.

Each of the above mentioned strategies addresses the cost of ownership by redistributing the costs of production and payment for housing services. Note that the redistributions primarily affect the land and buyer financing cost components, precisely those that have experienced the greatest percentage increases since 1949.

There is a broad array of programs that make housing more affordable by manipulating the mortgage payment obligations of the home owner. While it is true that these approaches result in more easily managed payment obligations of the owners, the reality is a zero gain. The savings to the buyer have simply been shifted as a cost or a risk to another player in the housing equation, often to the public-at-large.

Similarly, financing and tax incentives held out to developers, while in fact producing units, do result in a sacrifice of revenue to the federal treasury; thus they exist as real costs to the general public.

The same can be said for the imaginative shuffling of land acquisition and infrastructure development cost from private to public players. There is certainly a cost to the public when its land is sold at below market levels and when public funds are expended for the development of streets, sewer lines and water mains.

Clearly, the effort to make housing affordable is not a low cost pursuit. Direct cost and risk are manipulated, shuffled, and ultimately redistributed but they do not disappear.

## 8 The Cost of Buying a Home

### *Comparison of the Cost of Buying Subsidized, Manufactured or Conventional Housing In Massachusetts*

In Massachusetts the opportunities for entry level home-buyers are limited because the median home price is high relative to the debt that can be supported by the median income. Many first time buyers in Massachusetts, therefore, can only purchase a home if it is subsidized in some way. The state affordable housing production programs cannot build homes for every household that qualifies, nor does every household qualify for what the programs produce. Many more than the buyers who are excluded from the conventional and the subsidized purchases would qualify for purchase of a manufactured home in a land lease community; but in Massachusetts that option is not readily available. A profile of those who are excluded becomes apparent when required incomes for ownership of conventional, subsidized, and manufactured housing are compared.

The examples cited are the purchase of the average cost Massachusetts conventional home in 1987<sup>56</sup>; the purchase unit at the Battle Road Farm development with a Massachusetts Housing Finance Agency (MHFA) mortgage; the purchase of a unit at the Battle Road Farm development with an MHFA mortgage further bought down by a Housing Opportunity Program interest rate subsidy; and the purchase of the average cost Massachusetts manufactured home in 1988.<sup>57</sup>

Conventional Home Purchase: State Average

As mentioned previously, the statewide average home purchase in Massachusetts in 1987 was \$166,712. The cost of purchasing this home would have been:

Downpayment of 5%.....	\$8,335.60
Closing cost (5% est.).....	8,335.60
TOTAL CASH DUE AT CLOSING .....	\$16,671.20

Mortgage \$158,376.40 @ 10% 30 years

Principal and interest monthly.....	\$1,389.86
Monthly condominium fee.....	0.00
TOTAL MONTHLY PAYMENTS.....	\$1,389.86
MINIMUM INCOME REQUIRED*.....	\$66,713.28

\*If the 30% housing expenditure guideline is used, and we assume 25% for principal and interest, the balance for insurance and taxes which we have not included, an annual income of \$66,713.28 (1,389.28 x 12/.25) would be required to support this loan.

Subsidized Home Purchase: MHFA Financing: Battle Road Farm

The Battle Road Farm residential project in Lincoln, MA is currently under construction (Spring 1989). It will ultimately consist of 120 units of mixed income condominium homes of which 66 are earmarked for moderate-income first-time buyers. Thirty three of the units are offered at prices of



\$86,000 for 2 bedroom units and \$98,000 for 3 bedrooms, at an initial interest rate of 5.5%, and available to households with a maximum gross income of \$32,890. A second group of 33 units, undifferentiated in quality from the above are priced between \$100,000 and \$110,000, at a fixed interest rate offered by Massachusetts Housing Finance Agency, currently 8.375%, and available to moderate-income households with a maximum gross income of \$43,000. Six units have been retained by the developer for rental to low-income families using Section 8 or Chapter 707 rental assistance programs. The remaining 48 units which are undifferentiated in appearance from the affordable units, are market rate condominiums for sale at prices that range from \$205,000 to \$240,000.

This development was made possible through a public/private combination of financing and permitting arrangements. To wit: the town sold the land at a below market cost to the developer; the town rezoned the land to permit higher density, thus reducing the land cost per unit; a Community Development Action Grant (CDAG) provided \$500,000 for infrastructure improvements; reduced rate mortgages were provided by MHFA and HOP; and, the below market units were offered at less than cost, the offset coming from the market rate sales.<sup>58</sup>

The result at Battle Road Farm is 66 opportunities for limited equity home ownership for moderate-income people. There were over 2,000 inquiries and initial applications filed for these homes. An initial screening reduced the qualified applicants to a group of about 750. A lottery was conducted which picked the 66 potential buyers of these units. The

subsidized units at the project will accommodate less than 4% of the original inquirers, and less than 9% of those found creditworthy and income eligible for those units.

If the guidelines for the most recent issue of MHFA financing (July 1989) are used, the purchase of a \$100,000 unit with MHFA financing at Battle Road Farm breaks down as follows (exclusive of taxes and insurance):

Downpayment of 5%.....	\$5,000.00
Closing cost (5% est.).....	5,000.00
TOTAL CASH DUE AT CLOSING.....	\$10,000.00

Mortgage \$95,000 @ 8.375% 30 years

Principal and interest monthly.....	\$722.07
Monthly condominium fee.....	163.00
TOTAL MONTHLY PAYMENTS.....	\$885.07
MINIMUM INCOME REQUIRED*.....	\$42,483.36

\*If the 30% housing expenditure guideline is used, and we assume 25% for principal, interest and condominium fee (the balance for insurance and taxes has not been included), an annual income of \$42,483.36 ( $885.07 \times 12 / .25$ ) would be required to support this loan. The maximum income allowed for this unit under the guidelines of the offering is \$43,000.

Subsidized Home Purchase: MHFA/HOP Financing: Battle Road Farm

If the guidelines for the most recent issue of MHFA/HOP financing (July 1989) are used, the purchase of a \$86,000 unit with MHFA financing at Battle Road Farm breaks down as follows (exclusive of taxes and insurance):

Downpayment of 5%.....	\$4,300.00
Closing cost (5% est.).....	4,300.00
TOTAL CASH DUE AT CLOSING.....	\$8,600.00

Mortgage \$81,700 @ 5.375% 30 years

Principal and interest monthly.....	\$457.49
Monthly condominium fee.....	163.00
TOTAL MONTHLY PAYMENTS.....	\$620.49
MINIMUM INCOME REQUIRED*.....	\$29,783.52

\*If the 30% housing expenditure guideline is used, and we assume 25% for principal, interest and condominium fee (the balance for insurance and taxes has not been included), an annual income of \$29,783.52 ( $620.49 \times 12 / .25$ ) would be required to support this loan. The maximum income allowed for this unit under the guidelines of the offering is \$32,400.

Manufactured Home Purchase: State Average

The U.S. Dept. of Commerce, Bureau of the Census, shows that an average purchase price for a new manufactured home in Massachusetts in 1988 was \$33,400. The cost of purchasing this home would have been:

Downpayment of 10%.....\$3,340.00  
Closing cost (2% est.).....668.00  
TOTAL CASH DUE AT CLOSING.....\$4,008.00

Mortgage \$30,060 @ 13% 15 years

Principal and interest monthly.....\$380.33  
Monthly Lot Rent (est.for illus).....200.00  
TOTAL MONTHLY PAYMENTS.....\$580.33  
MINIMUM INCOME REQUIRED\*.....\$23,213.20

This example reflects the possibility of less advantageous borrowing terms than for conventional housing. Nevertheless, the monthly payments are \$77.16 (17%) less than for the MHFA/HOP subsidized unit, \$304.74 (34%) less than for the MHFA subsidized unit, and \$809.53 (58%) less than for the conventional unit.

\*The income required to support the manufactured home loan is \$43,500.08 (65%) less than that required for the conventional home purchase, \$19,270.16 (45%) less than that required to support the MHFA subsidized home purchase, and \$6,570.32 (22%) less than that required for the MHFA/HOP subsidized home purchase loan.

## *Analysis of the Cost Examples*

Manufactured housing producers acknowledge that their product may be second choice to more conventional housing types, but their studies indicate that if the cost (monthly payment) difference between the conventional and the manufactured home is 15% or more in favor of the manufactured home, the manufactured home will be chosen by the buyer at the margin. In these cases, the cost (payment) difference is 58% for the average conventional home, 34% for the MHFA subsidized unit, and 7% for the MHFA/HOP subsidized unit. The buyer of the manufactured home in the example given, clearly is not at the margin of either of the conventional or MHFA purchases. Instead, this consumer is shut out of each of them, so the hope of home ownership lies in the manufactured home or in the MHFA/HOP subsidized unit. However, the buyer of the MHFA/HOP unit does need higher qualifying income, will be subjected to limited equity provisions upon resale of the unit, faces financial risk as the HOP subsidy declines over the first ten years of the mortgage and his monthly payments rise, and will be living in an attached housing setting at Battle Road Farm. Furthermore, the cash requirement at closing for the manufactured home is less than 50% of that required for the MHFA/HOP unit purchase and the manufactured loan term is exactly 50% of that for the MHFA/HOP unit purchase.

The manufactured home is clearly a distinct product from the Battle Road Farm units, and preference will be exercised in the choice for or against this housing alternative, but clearly, it is the least expensive of any of the housing

alternatives. The manufactured home product is affordable to lower income groups for two primary reasons:

(1) The land is disaggregated from the living unit, so the home buyer need not purchase a lot on which to place the unit and

(2) The factory process achieves an average construction hard costs 30% lower than for the average site built home.

But, consumers cannot take advantage of the construction cost savings if there are no placement options available to them, and can therefore not take advantage of the shelter/housing cost savings to be achieved by disaggregating the land purchase from the dwelling unit. Limited placement opportunities preclude this home ownership opportunity for certain groups of housing consumers in Massachusetts.

If \$42,483 income supporting the MHFA unit purchase was instead supporting the purchase of a manufactured home, a \$56,995 home could be purchased without subsidy (\$885.07-\$200.00 [lot rent]<sup>59</sup>=\$685.07 mortgage payment, 10% downpayment, 13% interest, 15 years). This price is 171% above the Massachusetts average manufactured home price of \$33,400 paid in 1988, 176% above the national average price of \$32,400 for a multi-section manufactured home, and 310% above the national average price of \$18,400 paid for a single wide manufactured home in 1987.<sup>60</sup>

## 9 Manufactured Home Community Developers: Cases

Manufactured home communities potentially fill the needs of many housing consumers. Some developers who create this real estate product recognize that high quality projects will help to overcome the typical, negative stereotypes often associated with manufactured home parks. Leisurewoods represents a model which should enhance the future prospects of manufactured home community developers.

### *Leisurewoods*

Thomas Hastings was a real estate broker who had been involved in the sale of 90 acres of property in a residential zone in Rockland, MA. Hastings subsequently started a home building business, developing a subdivision of luxury, site-built homes in Duxbury, MA. In 1978, Hastings bought the 90 acre Rockland parcel of land that he had previously brokered to a builder who never developed the property. He proposed to develop a 415 unit retirement manufactured home park on the property. Drainage and wet areas on the site concerned the town conservation commission, and subsurface ledge conditions concerned the abutting property owners who feared their homes would be damaged if construction blasting were to occur on the Hastings property.

Hastings needed a special permit for the construction of the project. He submitted an application to the town zoning board of appeals in the spring of 1979. The request for a special permit was heard and denied. Hastings sued for a

second hearing on the grounds that he had not been allowed to present the facts supporting the proposed development during the initial hearing. A second hearing was ordered and the zoning board of adjustment granted the permit in December, 1979. The town selectmen filed a suit against the zoning board of appeals, alleging that the permit to Hastings had been wrongfully granted. That suit was settled in favor of the zoning board of appeals. One of the selectmen, and an abutter to the Hastings property, personally filed a suit against Hastings, arguing that the development of the manufactured home community would devalue his property. That suit was settled out of court when Hastings made a cash payment to the abutter. Hastings agreed to the settlement in order to start construction and to end the six year permitting ordeal. "It took six years of planning and litigation to get this project to construction stage," Hastings said. "The final phase of the project is now being built, and it is nearly leased up."

The site planning and layout of the homes is imaginative, with clusters of homes around cul-de-sacs and with homes placed at angles to the streets and to each other to avoid a line-up of homes. The landscaping is beautifully planned and executed. The rolling terrain, coupled with the landscaping, breaks the community down into neighborhood clusters. The club-house and pool area are nicely designed and well maintained. Leisurewoods is commonly referred to as "the state of the art for manufactured home developments in New England and in the country."<sup>61</sup>



Hastings has become the retailer of the homes being placed in this land lease community of 397 sites as well as the owner and developer of the project. He has retained control of the quality of the homes being placed in Leisurewoods by retailing the homes already placed on the lot. To facilitate the sales, there are model homes displayed in the residential environment of Leisurewoods. The models will themselves become homes for Leisurewoods residents. As a result, the colors, exterior styles and home placement positions all conform to the master plan of the community. The sales center at Leisurewoods, with three model homes, was recognized as the best in the U.S. in 1987 by the Automation in Housing and Manufactured Home Dealer magazine Model Home Sales Center Contest.

Although the model homes are sited where they will remain as residences, and in spite of the professional decorator interiors, Hastings said the real marketing success is the result of selling Leisurewoods, the community, rather than individual homes. "We are in the housing business, not the manufactured home business," Hastings said, "and we sell a community and a way of life, not just houses."

Wayne Darragh, the current Town Planner in Rockland, MA., was asked how the town feels about the project now that it is in place; his response was that there are pros and cons. He said the people living there are very happy, and they are a positive influence on community retail and restaurant businesses. However, he said the residents constitute a forceful new political group in town.

Darragh observed that the density of Leisurewoods, approximately 4.2 units per acre, does not vary substantially from some of the older neighborhoods in town, and that the average lot size of around 10,000 square feet is adequate. He also stated that the current 3/4 acre zoning in Rockland for new residential construction is excessive. Darragh said the 30 foot wide street requirements of Rockland are excessive, while the 18 foot width in Leisurewoods is too narrow, especially for older drivers. In Darragh's opinion, manufactured housing offers good options for affordable housing. However, he said that the prices and the profit level on the Leisurewoods homes were very high and therefore, Leisurewoods is not an affordable housing model development.

When Leisurewoods opened for sales, single wide homes were available in the \$50,000 range. However, the empty nester/retiree market Hastings was targeting proved to be more "upscale" and the later phases of the development have seen the home prices exclusively in the \$100,000 range. In the recent suburban Boston market, this has been a viable downsizing option for many.

Darragh concurred with the ASPO that manufactured home developments of this type should be anticipated and included in planning initiatives, because eventually the courts tell you what to do anyway. "You might as well accept this kind of thing as inevitable, plan for it, and deal from a position of strength."<sup>62</sup>

Frank Hitchcock, the Property Tax Assessor in Rockland, felt "personally discriminated against" by the tax treatment of manufactured housing in Massachusetts, and in Leisurewoods,

specifically. When "mobile homes" sit on their own land, they are taxed as real estate, based on the value of the home and land. When the mobile home is in a park, the home owner pays \$12 per month in lieu of taxes. "In lieu of taxes is ridiculous. One hundred forty four dollars per year in tax does not replace the \$1,000 per year those homes ought to pay, to be treated equally with homes on their own land" Hitchcock said. Hitchcock stated that the foregone revenue to the town as a result of the tax inequity totaled \$300,000 per year. "This year the town needs \$900,000 more than it can raise, so that \$300,000 would be a good sized chunk of that."

When asked about other effects the development has had on the town, Hitchcock said the neighboring property has been devalued. When asked to substantiate and quantify that, he said that "the people who live around the park tell me that, but I can't quantify it. It stands to reason that if they feel that way about it, a potential buyer of their property will feel that way, too."

Hitchcock stated that the quality of the homes is very high, and in many cases indistinguishable from a site built home. "Appearance and quality are not the problem. It's the taxes and the free ride they get." The Leisurewoods land is taxed, and divided by the 293 sites in January of 1989, that is \$180 per home, plus \$144, makes the tax collection from each equal to \$324. If the homes in Leisurewoods, were located outside the park on their own land, they would be paying around \$1,000 each."<sup>63</sup>

Hastings agreed that HUD Code manufactured homes located in land lease communities in Massachusetts should be treated

on an equal property tax basis with homes sited on their own property. However, in Hastings' view, equal taxation should occur only hand-in-hand with equal regulatory (zoning) treatment.

Hastings' plans for the future include development of more Leisurewoods communities in Massachusetts. Using the current development as an example, he hopes to win approvals from communities for family as well as retirement communities, so a broad spectrum of housing needs will be met.<sup>64</sup>

Hastings is developoing a model community that will serve to counteract many of the stereotypical attitudes toward manufactured home communities.

The permitting process, although long and arduous, did not focus specifically on the development as a manufactured home park. Rather, the initial concerns were environmental and site oriented. These concerns were addressed and resolved. No damage was done to neighboring property during blasting on the site, and stream beds and wet land areas were adequately preserved. In fact, these natural resources enhance the Leisurewoods project.

After the zoning board of appeals granted a permit for the project, an abbutter filed suit claiming that development of the manufactured home park would devalue his property. Although I have not learned the settlement terms, Hastings did agree to settle the suit out of court in order to move the project forward. The perception that the property abbutting Leisurewoods has depreciated, can only be quantified as sales of residential properties surrounding Leisurewoods take place over the coming years. Then it will be possible to estimate,

by a comparison sales approach, the degree to which those properties will have suffered, or benefitted, by abutting Leisurewoods.

The high quality of the Leisurewoods site planning, the homes in the development, and the marketing effort have created a model community that has satisfied the home owner/tenants. The town planner acknowledges that in terms of density and planning, it fits into the community. The tax assessor acknowledges that the homes are indistinguishable from site built homes.

In addition to concerns generated by any residential subdivision, the negative aspect of this development is the property tax issue. The developer agrees that the tax treatment is inequitable, as is the regulatory treatment of the manufactured home. Both of these situations should be addressed.

Jensen Homes, a Connecticut based developer of manufactured home communities, has not developed a community in Massachusetts, nor will he, until the regulatory climate changes.

*Jensen Homes*

Kristian Jensen is the third generation president of Jensen Homes, Southington, Connecticut. Jensen is the developer and owner of 3,600 spaces in 21 manufactured home communities. Jensen communities are located in seven states from Georgia to New Hampshire. Jensen will not consider

developing in Massachusetts until the regulatory climate toward manufactured housing changes.

Jensen Homes communities are exclusively for retirees. Jensen said his company sells a lifestyle, so the price of the home is less relevant than the quality of the community. A typical Jensen community includes a clubhouse and swimming pool, but does not include medical or care facilities for senior citizens.

Jensen views condominium developments as the competition. Jensen said that competition in the form of Leisurewoods, which he knows well would help the industry and would be welcomed.

Jensen only develops additional sites on demand, and he said demand is high. They are currently creating additional spaces in South Carolina and have a site in New Hampshire they are trying to get permitted. Speculatively, however, they often purchase older units in their communities when they are offered for sale and replace them with new units for resale. This helps the older parks, with flat roofed, single-wide units, look current.

Jensen feels that a developer can be successful getting family parks permitted if the developer has a track record in retirement parks. However, he also feels that retirement parks contribute to easing housing affordability, since retirees moving into Jensen Communities usually sell a conventional home, thus adding to the supply of family housing. Jensen has no immediate plans to develop a family oriented community.

Jensen said rent increases in his communities are "guaranteed." He is not concerned about the possibility of rent control because he never discounts rents to fill spaces. Because he only develops spaces as demand warrants, the starting rents reflect the market and the cost of developing the space.

Jensen communities are located in seven states. Ten of those are in Connecticut, where the housing situation is similar to that in Massachusetts. Although Jensen communities are all retirement parks, the easiest type to get approved, he nevertheless won't develop in Massachusetts until the regulatory climate changes. Like Hastings, he acknowledges the key to the future being new developments that enhance and contribute to the municipalities that host them.<sup>65</sup> That will mean tax and regulatory equality.

## 10 Development Opportunities

### *Manufactured Home Communities Can Be Profitable*

Hastings of Leisurewoods and Jensen of Jensen Homes both indicate additional demand for their product, manufactured homes and park spaces on which to site them. Adequate demand, however, does not guarantee a profitable investment in a manufactured home park development.

George Goldman, writing in the Journal of Property Management in November/December 1973 issue concludes that "mobile home parks represent a good, conservative, stable investment vehicle, if well understood and carefully

approached." However, Goldman notes that the mobile home park is NOT a good investment to be made on land that can't be sold (poor location or site conditions), nor is it a good investment for a non-management oriented investor (i.e. parks are management intensive). Furthermore, parks do not guarantee a profitable manufactured home retail sales business. The investment must be "well understood and carefully approached."<sup>66</sup>

On the other hand, manufactured home communities in the proper location, developed with the amenities demanded by the market, and offered at a price the market will bear, will be a safer investment than most apartment complexes, due in part to the unique relationship of the home owner to the park owner. Because the dwelling is owned by the tenant of the park, and because today's manufactured homes are relatively immobile, the mobility of the tenant is constrained. Since the expense of moving an already sited manufactured home is high, a manufactured home owner is more likely to sell his unit on its site than to relocate it if he himself must move. Park vacancy rates will typically be less than 3 to 5% once they have been initially filled.

#### *Investors and Developers are Attracted to Manufactured Home Parks*

The Tax Reform Act of 1986 has resulted in a renewed interest in manufactured home community investment. Typically low vacancies and constant income of manufactured home communities make them a source of passive investor income. The inability to offset active income with passive losses has



ended the hey day of tax driven real estate investments. Passive real estate investments showing losses due to depreciation are no longer a shelter for active income. Rather, these passive losses must be offset by passive income, an opportunity which has been discovered by many in manufactured home communities.

### Investors

Therefore, investors have a keen interest in manufactured home community acquisition. According to the January 1988 edition of the Stanger Register, public partnerships in mobile/manufactured housing raised approximately \$90,000,000 in 1987, up from \$38,000,000 in 1986 and \$12,000,000 in 1984. The thrust of the approach of these investors is acquisition, leaving the apparent supply and demand disequilibrium to someone else to solve. The Stanger Register, January 1988, identified six public partnership funds invested totally in mobile home parks, and posted some caution about investment in mobile home parks. Warnings about the regulatory climate for existing parks, especially with regard to rent control possibilities, should not go unheeded; nor should the level of management required to up grade parks be underestimated. It is important to be aware, too, that park quality varies. As park quality declines, the quality and credit worthiness of the park tenants declines, leaving rent collections a difficult or impossible task, affecting the yield and the potential resale value of the park. Furthermore, with current park cap rates down to a level of 7.5 to 9.5, the prices are

very high relative to NOI and the yields of the 10.5 to 11.5 cap rate days won't be delivered.

Nevertheless, investors seek parks for a variety of reasons.

- 1) They can often be improved and enlarged, enhancing their earnings and thus their future resale value. In short, they seek older parks that can be enhanced through capital expenditure and expansion or more stringent management. Although investors prefer newer, grade A parks, older parks often present the greatest opportunity for appreciation through management, enlargement and improvement efforts..
- 2) They produce stable income. Because manufactured homes are not easily mobile once they have adopted a location, turnover of tenants is far lower than in apartments. The park tenants are home owners, most of whom will stay relatively long term.
- 3) They demonstrate historically low vacancy rates. Property tax implications and image problems associated with manufactured home communities make approvals for development of new parks difficult in many areas. Supply of spaces is low relative to demand, keeping occupancy high. Because zoning boards are hesitant to approve new manufactured home communities, the supply of spaces has not kept up with the demand, creating an investment advantage.

- 4) They have low operating expenses and limited maintenance. The tenants own their own homes, so maintenance is confined to common areas. Nevertheless, parks require special management skills, primarily because of the unique situation of the owner/tenant relationship. Low turnover indicates little re-leasing activity.
- 5) They tend to be recession resistant. Since they are already living in one of the most inexpensive forms of housing, there is little opportunity to trade down in the event of economic recession. There are exceptions, however, as in the recent case of the oil patch states, where manufactured home communities were left with high vacancies when the oil economy bust sent workers fleeing the area.

The investment groups will not become developers of significant numbers of new spaces. However, the number of communities they acquire will grow as comfort with this real estate asset grows. "Frankly, we think this real estate [mobile home parks] should be attractive to institutional buyers, but it is not enthusiastically received. The investment is dampened by a lack of prestige. At least we're getting people to talk about it now; the idea isn't dismissed right away," said William R. Walker of The Balcors Co., Skokie, Ill.<sup>67</sup>

"Lack of prestige isn't the only reason institutional buyers have shied away from mobile home parks. Because the industry has been dominated by 'mom and pop' owners of small,

110-pad parks, it doesn't make sense for an institution to start investing in one or two of these things...They become attractive when packaged in portfolios of 17 or more," said Lawrence Winston, president of Angeles Corp., Los Angeles, one of the largest owners of manufactured home communities.<sup>68</sup>

"Five-year returns in the 20% range are normal for these parks because cap rates are low (7% to 8% for "upscale "parks) occupancy is high and demand is up. Mobile home investments' success is based on limited asset involvement, secure occupancy rates and low operating expenses" according to Thomas Tucker, Director of Real Estate Advisory Services for Laventhol & Horwath of Costa Mesa, California.<sup>69</sup>

#### Developers: Site Builders and Manufactured Home Retailers

Developers are becoming increasingly interested in the manufactured home community. The majority will address the ranks of the retirees, since local political climates generally favor retirement developments to family parks. Furthermore, as America "grays" the demand for more easily managed housing will increase, and manufactured home communities have the flexibility to fill this niche market. With an increasing number of pension and income funds earmarked for manufactured home communities, there are increasing resale opportunities for the developers of attractive, profitable communities. Therefore, the future may demonstrate the emergence of more developers who create communities, lease them up and sell them to syndicators or institutional investors looking for income and capital

appreciation. Fewer who develop communities will hold them for the long term.

Some site builders have turned to manufactured housing as the price of stick building has increased. These developers are proponents of the manufactured home subdivision. Their investment goals are quite different from the developer of the land lease community: short term versus long term investment. "More and more previous site builders are becoming builder/dealers for factory-built homes [in subdivisions] because they'd rather pocket profits than pound nails."

Industry critics observe that the manufactured home industry is plagued only because the home dealers have not been trained to become subdivision developers. However, the "really progressive mobile home dealer is learning how to become a subdivider because he realizes that his profits will come from real estate or land-lease sales of multi-section units in subdivisions or on scattered lots."<sup>70</sup>

#### Manufactured Home Producers

Manufacturers have entered the land development business primarily to create placement sites and thus sales for the parent company, the producer. However, "in every successfully vertically integrated company, the integration has not been from manufacturing to retailing, but the other way around. Several have tried to integrate into retailing from manufacturing-all with poor results. Those involved in the realities of the business would agree that, in descending

order, land development is probably the most difficult, followed by retailing and then manufacturing."<sup>71</sup>

There are some home manufacturers who have been successful with their land development subsidiaries. Oakwood Homes of Greensboro, N.C., has been successful with community development in the southeast, but this company is the exception rather than the rule, to the observation that home producers generally don't succeed as site developers.

## 11 Conclusion

In Massachusetts we currently abide a housing situation similar to that of the 1930's depression years, availability and demand for housing but a lack of access to it. Today the situation is one of demand for affordable home ownership in the face of conventional housing that is unaffordable to many. This situation occurs in a regulatory environment that precludes entry of affordable manufactured housing to the housing supply in many jurisdictions. HUD Code manufactured homes are now a viable alternative to conventional homes, but they are largely regulated against.

The failure of the mobile home to achieve full legitimacy as a viable housing alternative continues to plague the industry that produces it and, more importantly, the households that cannot benefit from it due to regulatory exclusion. The manufactured home product satisfies an overwhelming majority of the households that currently reside in manufactured housing, but the number of households benefitting from manufactured home ownership is constrained by

regulation against placement of these homes. Nationally, the majority of manufactured homes are sited in manufactured home communities or located on land of another person. The disaggregation of the dwelling unit cost from the investment in the land is an important aspect of this housing type that renders it affordable to many households who are otherwise priced out of home ownership. These households are buying shelter first and investing in real estate second.

Many of these residents have made the choice of manufactured home living in a land lease community as an approximation of, and a step toward, conventional home ownership. Surprisingly, the largest percentage of manufactured home owners in Massachusetts is retired. I conclude that the reason for the underrepresentation of the entry level, first time buyers, in manufactured home ownership in Massachusetts is the lack of placement opportunities in land lease parks. Few new parks are being developed and many that exist are age restricted. Nevertheless, as a percentage of the state population, California buyers under age 40 have greater access to manufactured housing than do Massachusetts first time buyers.

In California there was early recognition that the manufactured home could provide affordable living environments to housing consumers in the state, and legislation in favor of manufactured housing has been put in place over the years. Nevertheless, the majority of manufactured home owners in California are also retired. Although the percentage of manufactured home households that are entry-level buyers (under age 40) is smaller in California than it is in

Massachusetts, the number of entry level owners in California as a percentage of the state population is nearly two times what it is in Massachusetts. This important fact indicates that greater access to manufactured housing alternatives can result in more entry level buyer participation in home ownership of that type.

The number of households responding to the Battle Road Farm offering indicates an unsatisfied demand for affordable homes. Public programs promoted in Massachusetts for the production of affordable housing result in too few units for the great demand, at prices that exclude many households. No unit purchase in the publicly subsidized Battle Road Farm project, regardless of which purchase subsidy package the buyer qualifies for, can be effected as inexpensively as the purchase of the Massachusetts average priced manufactured home.

The survey of manufactured home parks in S.E. Massachusetts indicates an unsatisfied demand for park spaces. This paper has not attempted to quantify the demand for either housing product, nor has it attempted the more difficult task of quantifying the intersection of those households desiring manufactured housing in land lease communities with those desiring ownership in a subsidized condominium ownership development. However, if one assumes that some of the respondents to the Battle Road Farm offering would prefer and choose the manufactured home alternative if it was available to them, their housing needs would be met without public support. This is not to say that state initiatives can or should be replaced or reduced by regulation in favor of



manufactured home alternatives, or that manufactured home availability can solve the housing affordability crisis in Massachusetts.

In Massachusetts, the majority of manufactured home buyers are retirees or empty nesters, many of whom have sold homes. With their recaptured equity, they can profitably downsize by moving into manufactured homes. Leisurewoods is a case in point. Although it is an age restricted community, it does overcome many of the objections raised about manufactured home communities. The high quality of the approach to, and development of, the product has resulted in a model that can be used not only for retirement communities, but for family communities as well. This paper has not attempted to quantify the demands placed on a municipality by residential development, but it does acknowledge the present property tax inequities in Massachusetts from which the manufactured home community tenant now benefits. Furthermore, the paper acknowledges that reform of this situation must take place if the manufactured home community is to take its legitimate and rightful place in the range of housing alternatives available to housing consumers in Massachusetts.

As housing costs continue to increase, it will be ever more important to address the issue of housing affordability. Reliance on redistributing risks and costs to decrease the cost of home purchases is only a treatment of the symptoms of the housing affordability crisis. The root of the issue must be addressed if meaningful progress is to be made toward a solution of the problem. The comparison between the conventional, the subsidized, and the manufactured home

displays the benefits of factory production of housing and disaggregation of the housing unit from its site.

To take advantage of production efficiencies and resulting low product cost, regulations favoring manufactured housing and land lease communities must be enacted. In short, regulatory reform is required, and it is needed before the courts order unprepared towns to permit manufactured home communities for which they have not planned. If this regulatory change were to take place in Massachusetts, there would be investors and developers ready to create land lease communities for manufactured homes in the state. At that time, local studies of demand and product acceptance would determine where parks should locate, how many spaces should be developed, and what demographic group they should address.

The interjection of housing opportunities into the market that a lowering of regulatory barriers would accomplish, would benefit the housing consumers of Massachusetts, ease the pressure on the existing housing programs supported by the state, and be profitable for private sector investors and developers.

## 12 Notes

1. Suzanne Lindamood and Sherman D. Hanna, *Housing, Society and Consumers: An Introduction* (St. Paul: West Publishing Co. 1979) p.370.
2. Carol B. Meeks, *Housing* (Englewood Cliffs, N.J.: Prentice-Hall, Inc. 1980) p.250.
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Appendix 1				
TOWNS THAT NO LONGER PERMIT NEW PARKS				
REGION	# of	# of	total parks with	
Town	parks	spaces	in	>100
			region	spaces
BERKSHIRES				
Cheshire	4	164		1
Lee	3	42		0
W. Stockbridge	1	35		0
Williamstown	2	287		1
			528	
CAPE COD				
Brewster	2	35		0
Mashpee	2	159		0
Truro	1	2		0
Wellfleet	3	300		1
			496	
CENTRAL				
Barre	1	65		0
Brookfield	2	208		1
Charlton	1	8		0
Northborough	1	132		1
Oakham	2	18		0
Oxford	2	15		0
Rutland	1	21		0
Ware	1	73		0
Warren	2	58		0
Webster	3	142		0
W. Brookfield	1	36		0
Westborough	1	49		0
Worcester	2	120		0
			945	
FRANKLIN				
Athol	1	5		0
Bernardston	1	29		0
			34	
LOWER PIONEER VALLEY				
Agawam	1	35		0
Brimfield	1	94		0
Chester	1	9		0
Monson	1	46		0
Palmer	1	92		0
W. Springfield	1	39		0
Westfield	5	401		0
			716	
MERRIMAC				
Salisbury	3	77		0
			77	

Appendix 1 cont.

TOWNS THAT NO LONGER PERMIT NEW PARKS (CONTINUED)

REGION Town	# of parks	# of spaces	total parks with in region >100 spaces
METROPOLITAN			
Boston	1	147	1
			147
OUTER SUBURBS			
Concord	1	33	0
Danvers	4	243	0
Foxborough	1	71	0
Hingham	1	15	0
Holbrook	1	86	0
Littleton	1	104	1
Marlborough	4	515	4
N. Reading	2	36	0
Saugus	5	142	0
Weym, outh	1	100	1
			1345
MONTACHUSETT			
Ayer	3	63	0
Fitchburg	2	88	0
Pepperell	3	125	0
Shirley	2	108	1
Winchendon	1	54	0
			438
N. MIDDLESEX			
Billerica	1	200	1
Chelmsford	1	250	1
			450
OLD COLONY			
Easton	1	40	0
Halifax	1	425	1
Stoughton	1	25	0
W. Bridgewater	2	229	1
			719
S.E. MASSACHUSETTS			
Acushnet	3	126	0
N. Attleboro	5	308	0
Norton	3	178	1
			612
TOTALS	105	6507	6507
			18



Appendix 2  
Towns Allowing Parks

REGION TOWN	PARKS BY RIGHT (0=No, 1=Yes)	PARKS BY PERMIT	# OF EXIST PARKS	SPACES	# PARKS > 100 SPACES
BERKSHIRE					
Hancock	1	0	0	0	0
N. Adams	1	0	3	210	1
Adams	0	1	1	35	0
Dalton	0	1	1	31	0
Great Barrington	0	1	0	0	0
Hinsdale	0	1	1		
Lanesborough	0	1	1	37	0
Pittsfield	0	1	3	201	1
Windsor	0	1	0	0	0
total				514	
CAPE COD					
Bourne	0	1	1	139	1
Provincetown	0	1	0	0	0
total				139	
CENTRAL					
Auburn	0	1	6	234	0
Brookfield	0	1	2	208	1
North Bridge	0	1	0	0	0
Sturbridge	0	1	3	62	0
total				504	
FRANKLIN REGION					
Charlmont	0	1	2	32	0
Colrain	0	1	0	0	0
Erving	0	1	0	0	0
Greenfield	0	1	2	83	0
Phillipston	0	1	0	0	0
Orange	1	0	3	86	0
Warwick	1	0	0	0	0
total				201	
ISLANDS					
Gay Head	1	0	0	0	0
Gosnold	1	0	0	0	0
Tisbury	0	1	0	0	0
W. Tisbury	0	1	0	0	0
total				0	

Appendix 2 (cont.)

	PARKS BY RIGHT (0=No,1=Yes)	PARKS BY PERMIT (0=No,1=Yes)	# OF EXIST PARKS	SPACES	# PARKS > 100 SPACES
LOWER PIONEER					
Belchertown	0	1	2	400	1
Blandford	0	1	0	0	0
Hadley	0	1	0	0	0
Holyoke	0	1	0	0	0
Huntington	0	1	0	0	0
Russell	0	1	1	20	0
Springfield	0	1	6	557	2
Wales	0	1	1	50	0
Ware	0	1	2	73	0
Williamsburg	0	1	0	0	0
Chicopee	1	0	6	477	2
Hatfield	1	0	1	18	0
Ludlow	1	0	3	133	0
Westhampton	1	0	0	0	0
total				1728	
MERRIMAC					
Merrimac	1	0	2	198	1
West Newbury	1	0	0	0	0
total				198	
METROPOLITAN					
Brookline	0	1	0	0	0
Cambridge	0	1	0	0	0
Watertown	0	1	0	0	0
Chelsea	1	0	0	0	0
total				0	
OUTER SUBURBS					
Ashland	0	1	0	0	0
Framingham	0	1	0	0	0
Gloucester	0	1	1	10	0
Peabody	0	1	13	770	3
Rockland	0	1	2	468	1
Hudson	1	0	1	184	1
Norwell	1	0	2	45	0
total				1477	
MONTACHUSETT					
Ashburnham	0	1	0	0	0
Gardner	0	1	0	0	0
Hubbardston	0	1	0	0	0
Leominster	0	1	3	89	0
Sterling	0	1	0	0	0
Templeton	0	1	0	0	0
Winchendon	0	1	1	54	0
Fitchburg	1	0	2	68	0
Lunenburg	1	0	3	107	0
total				318	

Appendix 2 (cont.)

	PARKS BY RIGHT (0=No,1=Yes)	PARKS BY PERMIT	# OF EXIST PARKS	SPACES	# PARKS > 100 SPACES
NORTHERN MIDDLESEX					
OLD COLONY					
Kingston	0	1	2	146	0
Plymouth	0	1	3	500	2
E. Bridgewater	1	0	1	20	0
total				666	
S.E. MASSACHUSETTS					
Attleboro	0	1	8	570	3
Carver	0	1	3	898	2
Fall River	0	1	0	0	0
Lakeville	0	1	0	0	0
New Bedford	0	1	2	61	0
Plainville	0	1	3	234	1
Raynham	0	1	2	212	1
Somerset	0	1	0	0	0
Taunton	0	1	4	471	2
Wareham	0	1	16	1079	4
Mattapoisett	1	0	0	0	0
				3525	
TOTALS:	19	57	125	9270	

Appendix 3

Percentage of Towns by Region Permitting Parks

REGION	# OF TOWNS	TOWNS WITH PARKS	TOWNS NOT PERMITTING BUT WITH PARKS	%TOWNS PERMITTING PARKS	SPACES BY REGION	
Berkshire	32	9	6	4	28%	1042
Cape Cod	15	2	1	4	13%	635
Dentral	41	4	3	13	10%	1449
Franklin	30	7	3	2	23%	235
Islands	8	4	0	0	50%	0
Lower Pioneer	43	14	8	7	33%	2444
Merrimac	15	2	1	1	13%	275
Metro Boston	24	4	0	1	17%	147
Outer Suburbs	76	7	5	10	9%	2822
Montachusett	17	9	4	5	53%	756
N. Middlesex	9	0	0	2	0%	450
Old Colony	14	3	3	4	21%	1385
S.E. Mass.	27	11	7	3	41%	4137
TOTALS	351	76	41	56		15777