



California's Urban Manufactured Homes

by Steve Hullibarger

Trends begin in California. That's certainly true for fashions and fads, and many other elements of American life. For people interested in the manufactured housing industry, another trend has taken firm hold here and it shows promising signs of migrating eastward.

Blessed with the most favorable zoning and regulatory environment of all the states for the use of manufactured homes as substitutes for site-built homes, the combination of high on-site construction costs and liberal-minded manufacturers have produced a portfolio of real estate that is unequalled in the industry. In fact, most people have no idea of the existence of homes like these.

Buckle up and let's go look at them.

Why California?

Along the way, it might help to understand the conditions that set the stage for California's legislators to enact a string of laws favorable to urban infill activities with manufactured homes. In the late 1970s, in a bid to bring some relief to out-of-the-market first time home buyers, the legislature threw out archaic zoning barriers and other regulations. This cleared the way for the industry to use its construction and marketing horsepower to fill the void in the entry level market.

But nothing happened, initially at least.

Soon, a small army of entrepreneurs appeared at the doorstep of the manufacturers. These people were not regular industry members, but rather they were building contractors, Realtors, land developers, rehab specialists and other business people who saw an opportunity. When the established manufactured home marketing system failed to act, these people took over.

Upon the demands from this group, whom the manufacturers collectively labeled as "developers," home designs and specifications began to change. Today, it's easy to visualize the sea changes that have been brought about in the homes to serve the developers and their markets. To see how far the California HUD-code home has evolved, a look back is helpful.

Without knowing their addresses, the homes that were in the forefront 24 years ago are hard to locate. But there are many examples (see Sidebar), which serve to prove the point that manufactured homes, situated equally with site-built homes, will perform in terms of appreciation on par with any other homes.

In today's tour, we'll see some of the homes that are increasingly being used by urban builders and developers in even the most expensive of California's urban environments.

San Diego: Dan Lopez

"After 12 years selling real estate, I realized the profit opportunity that was possible by buying old vacant city lots and placing manufactured homes on them," Dan Lopez recently recalled. "Here in the San Diego area, construction costs were just getting out of hand, so I thought I'd try to build on existing lots using another technique," he said.

Photo Right: Dan Lopez placed this two-story HUD-Code home on a corner lot just 2 mile from San Diego's downtown core.



Lopez has been in the real estate industry for 12 years. In the early 1980's, he sold a few old manufactured homes - mobile homes then. This helped him understand the nature of these homes. After waiting out California's severe recession in the early 1990's he took his first stab at infill development. Paying \$6,500 for a repossessed house, he placed it on an eastern San Diego lot for which he paid \$40,000. He constructed the foundation and added a garage, tweaking some appearance features until he was happy with it. In June 1996, he sold it for \$137,000.

Encouraged by his first effort, Lopez began to ramp up his operations. Most of his properties have been in the El Cajon area and other east San Diego locales.

There are many lots in urban San Diego that may be too narrow to utilize with the traditional multi-section manufactured home. However, with the recent advent of the two-story HUD-code home, these lots become feasible. In fact, they become outright attractive. Dan found that the building footprint of the so-called "stacked single" was ideal for the narrow lots. With 15 feet of width, the homes set comfortably within the setbacks required on 25 foot wide lots.

Whenever the lot allows, Lopez adds attached garages for extra value and homeowner utility. In addition to the garages, he has now set company minimums for architectural compatibility: stucco exteriors and red tile roofs. This is a natural, as it is the overwhelming residential style for San Diego, and much of the southwest.

His current project is the installation of a three-section, two-story HUD-code home on a cul-de-sac lot in Chula Vista, a San Diego suburb. He has the luxury of a relatively large lot this time, a little over 20,000 square feet.

During the project planning, he discovered that the overhead power lines were abnormally low. "We thought about bringing the house sections in with a helicopter," he said. "But we found a way to lower them to within a few inches of the ground, and we just crawled them in," he laughs. The 1,700 square-foot home has its red tile roof and white stucco exterior now. He has also completed a two-car garage and is adding a swimming pool.

He had the home appraised recently, catching the appraiser completely off guard when, in the latter stages of the home inspection, he revealed the manufactured origins of the home. "He could not believe it," Lopez says. Lopez was quite pleased with the appraisal report - \$445,000. Despite some unsolicited offers of up to \$600,000, he may keep this one. "It's where I want to live," he said.

What's next for Dan Lopez? "Rental properties!" he says. He plans to take advantage of California's Multi-Unit Manufactured Home program, a procedure for building multi-family manufactured homes with the HUD code. The manufacturer can construct duplexes and triplexes on a typical two-section configuration. With the party wall crossing the marriage line, the floor plans can replicate those found in site-built duplexes. When built, the home receives a California label instead of the familiar red metal HUD label.

Lopez has acquired property in eastern Riverside County to place four duplexes, totaling 8 rental units. With an anticipated total cost for land acquisition and development, the homes and the site work of \$150,000 per building (of two dwelling units), the cost per rental equals \$75,000. An appraisal has indicated a market value of \$200,000 per rental unit. Although he could sell the finished property and potentially realize a \$1 million profit, he plans to keep them as an investment property.

He has found lenders willing to finance his \$600,000 costs on a market value of \$1,600,000, even though it represents a complete cash-out scenario. Servicing a \$600,000 mortgage at 6% for 30 years costs about \$3,600 for principal and interest. With rents in the area for three-bedroom duplexes at about \$1,500 per month, Lopez says he can realize terrific cash flows, after operating expenses, and even after debt service.

Lopez certainly realizes that the red hot California real estate market makes many of his projects feasible, and he knows that his profit margins have been greatly enhanced because he's not trying to work with expensive and elusive contractors and labor. "I also know that I couldn't do the things I'm doing with the old manufactured homes - they've changed, and much for the better."

Los Angeles: Alan Satterlee

Alan Satterlee runs his real estate and development businesses from his office in Calabasas, an upper end community located on the west side of Los Angeles' San Fernando Valley, and just over the hill from Malibu. Satterlee's operations initially focused on apartments and commercial properties, then he began constructing custom homes. Perhaps a harbinger of things to come, Satterlee built a previous business moving homes and commercial buildings throughout southern California, made necessary by the construction of L.A.'s famous freeway system.

Photo Right: After installing the three sections of his HUD-Code home in Eagle Rock, Alan Satterlee constructed the garage, then overhauled the entire look of the house with site applied stucco and tile roofing.



As with other builders, Satterlee recognized the growing gap between the cost of constructing homes on-site and constructing them in factories. Moving on his analysis, he obtained a manufactured housing retailer license from the state in the mid-1990's. This allows him to purchase homes directly from the manufacturer.

Satterlee uses his long standing network in the real estate market to help him find lots for development with manufactured homes. When a property comes on the market through the local multiple listing service, he quickly investigates to see if it will work for him. Satterlee, like most experienced real estate practitioners, knows that the proper selection and purchase of the lot is paramount in the profit-generating process. In a sense, the manufactured home is almost secondary in the prioritization of events.

At a recent seminar sponsored by the California Manufactured Housing Institute, Alan showed an example of his methods. His son, Mark, located a property in the Eagle Rock neighborhood of Los Angeles, about 5 miles from L.A. City Hall. Right away they knew that the \$214,000 price was extremely attractive, and they jumped on it. The property was split into three lots of 5,000 square feet each. Two one-story and one two-story manufactured homes were acquired for a total of \$250,000, and installed on foundations. Garages, porches, exterior enhancements and other site finishing activities added up to another \$267,000. The three homes were sold to individual buyers in June and July of 2003 for a total of \$1,215,000. Mr. Satterlee and his sons (his other son David is active in the business, too) were very pleased with the \$484,000 profit.

The Satterlees recognize that in a rising market, a significant portion of their profit comes from holding land that is rapidly appreciating. A long term view of this benefit recognizes that it can also become a risk, if the markets turn.

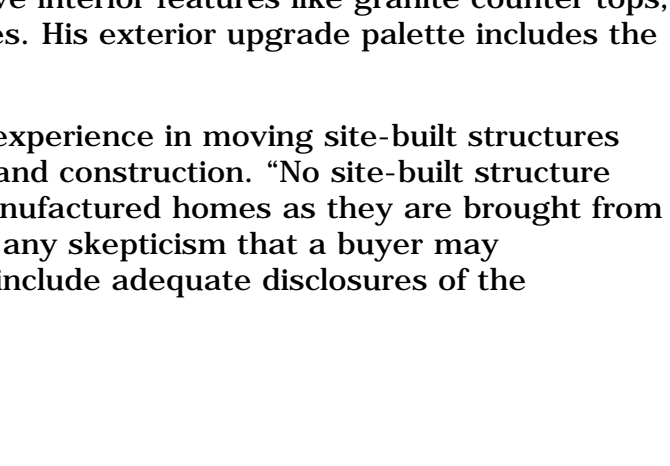
Alan has built numerous other high-end sites with manufactured homes, principally in exclusive enclaves in the Agoura and Calabasas areas of the West Valley. "In my opinion, buyers do not care where a home was constructed if it meets their expectations with respect to location, architecture, interior appointments, and the quality of construction," he said. His own standards motivate him to significantly enhance what the factory delivers to him. He favors expensive interior features like granite counter tops, tile floors and locally purchased lighting and plumbing fixtures. His exterior upgrade palette includes the use of stucco, used brick, and a variety of stone veneers.

He markets his homes as houses like any other houses. His experience in moving site-built structures has shown him the superiority of factory-based engineering and construction. "No site-built structure would be able to withstand the forces imposed on typical manufactured homes as they are brought from the factory to the site. This gives me a real tool in satisfying any skepticism that a buyer may demonstrate," said Satterlee. Regardless, he makes sure to include adequate disclosures of the origination of the homes in his contract documents.

Los Angeles Part Two: Alan Satterlee

Satterlee's most recent project is located in Chatsworth, another Los Angeles suburb in the West San Fernando Valley. Again, his real estate acumen helped him realize the potential value of a \$92,500 lot. He placed a three-section, two-story manufactured home lengthwise on the slightly larger lot, and constructed a bonus room and two-car garage in front. He was rewarded with a successful sale at \$555,000 in Spring 2004.

Photo Right: Alan Satterlee's Chasworth project is a three garage, two-story manufactured home. His site-built garage uses several devices that echo the home's styling.



Like others active in California's big urban markets, Alan is baffled with the turmoil that has recently plagued the more traditional manufactured home retailing industry. "Why the lenders want to roll all manufactured homes into an out-of-favor category makes no sense to me," he stated. "My business is building homes for discriminating buyers who have choices. Eventually lenders and the secondary markets will realize the difference and treat these houses like their site-built brethren."

The work that Satterlee and his sons have done certainly makes that point.

Orange County: Jean Poole

Jean Poole has been purchasing and renovating older homes in Orange County for more years than she cares to remember. She also is the owner of a specialty employer-services company. She had often sensed that the process of using manufactured homes in lieu of building on site made a lot of sense.

Moving on her hunch in May 2001, Jean bought a lot in Costa Mesa for \$376,000. A special home design was worked out with the manufacturer, and was delivered for on-site completion. The existing garage was retained and renovated. The property sold in May, 2002, for \$615,000. Wells Fargo bank provided a \$460,000 first mortgage for the buyers.

Photo Right: In Costa Mesa Jean Poole's spec infill house feature an attractive integral porch and a detached garage in the backyard, offering an essence of traditional neighborhood design.



Orange County Part Two: Jean Poole

Next, Jean purchased a small lot in Newport Beach's Lido Island, only a few hundred yards from the beach. Spending \$460,000 for the lot, which contained a dilapidated house, to place a manufactured home, might not make a lot of sense to many people. For a few thousand dollars more, the lot was bare, and ready for new construction.

Photo Right: To some, Newport Beach is a funky old beach town. To others it's an enclave for the very wealthy. Jean Poole combines both flavors with her two-story home on a narrow lot that brought \$919,000 last December.



Inasmuch as the property was only 25 feet wide by 95 feet deep, the only feasible thing to do was to purchase and install a two-story single-width manufactured home. Not happy with some the interior features, she upgraded the home with exotic features such as bamboo flooring and stone in the bathrooms. She built a detached garage with a secondary dwelling unit overhead, accessed from the back alley.

Completed, the home sold in December 2003 for \$919,000. According to the title records, the buyer financed their purchase with a \$735,000 mortgage through Bank of America.

In the final analysis, Jean did not capture the large margins she was expecting from her use of manufactured homes. "I may have been able to make close to the same profits if I had just kept the properties and resold them without building houses," she said. This is a situation many spec infill lot builders find themselves in when markets are rising quickly.

"I did appreciate the she said. She has struggled with unreliable construction cost estimates and bids on her remodeling projects in the past. "I was also quite pleased with the construction quality and follow-up service I received from the manufacturer," she added.

Jean made an effort to gain publicity for her projects, figuring that good exposure would make them easier to sell when she finished them. "In the end, that was probably a mistake," she said, "because there was no need to broadcast the fact that these homes were manufactured." She discovered an unexpected reaction from local real estate brokers and clients. Surprisingly and unexpectedly, the reaction was negative, and it eventually hurt her selling effort.

"Just build them," she now says, "and let the buyers satisfy themselves as to the location, neighborhood amenities, and the virtues of the homes themselves." But never fail to disclose that they are manufactured homes, just do it later in the transaction sequence.

At present, Jean is working on two renovations of older houses, and is evaluating her future activities with manufactured homes. One promising area, she figures, is investing in larger manufactured home developments, particularly when good design would be one of the critical elements for success.

Lessons Learned

These three entrepreneurs are representative of the many people active, now and in the past, in California's big cities. Their view is that the use of manufactured homes in lieu of onsite construction can, in many instances, bring rewards. Some people want to cut costs - an objective that can sometimes be elusive. Others want to compress the time and complexities involved in building small quantities of homes. Others seek still more peripheral advantages.

There have been some people who have not been successful in this enterprise. Trying to explain why they failed, or what alternative events could have turned disappointment into satisfaction, are subjects for another time.

However, those that have done well have carefully studied the process before embarking on their first projects. Most will accept the fact that there is a learning curve involved here. The nuances that separate traditional stick-and-brick construction methods from the use of manufactured homes are more than minor. One cannot dismiss the differences between the two processes without risking at least major headaches - and sometimes more.

As for the manufactured housing industry, the trail is still there. Although there is a persistent tendency to return to familiar business habits, the opportunities for manufacturers to benefit from growth in urban market penetration have never been greater. The lessons learned by our developer clients should at least be matched our own willingness to accommodate them.

In the meanwhile, people are scouring the big cities where archaic zoning barriers are gone. The lots - and the opportunities - are there waiting.

*Steve Hullibarger offers advice and consulting services to individuals and companies that want to use manufactured homes in lieu of on-site building. He is author of the immensely popular **Developing with Manufactured Homes** available through MHI. His company, **The Home Team, is located in Fair Oaks, California. He can be reached at (916) 965-5153, or by e-mail at sgull@ix.netcom.com***

