Spotlight on Underserved Markets

Manufactured Housing Resident-Owned Communities

Manufactured Housing Resident-Owned Communities (MHROCs)

An Overview of the Location and Characteristics of MHROCs

Manufactured Housing Resident-Owned Communities (MHROCs) have increasingly garnered public attention as they give residents of a Manufactured Housing Community[i] (MHC) more control over their housing than in a typical investor-owned community.

In an MHROC, the residents govern themselves and collectively own their community through a cooperative, corporation, or other similar legal framework. Typically, the community is set up as a nonprofit entity, but in some cases MHROCs are for-profit. The cooperative owns the entire community, including the land, amenities, infrastructure and facilities, but the residents continue to own their own homes. The members vote on major decisions and elect a board of directors (Board) to handle the day-to-day operations. The Board may choose to hire a professional management company to handle operations and bookkeeping, especially if the community is large.

Although the MHROC market is quite small, with little more than 1,000 MHROCs identified across the country, it is of critical importance to those who own and operate their own communities. This market segment is so small because converting an investor-owned MHC to resident ownership is typically quite difficult, requiring many events to fall into place in a short time frame.

Until recently, there has been minimal comprehensive data around MHROCs; there has been a gap in information around the number of properties, their location and costs, and details such as ownership structures and equity models. In 2018, we compiled a directory of resident-owned communities and reached out to individual MHROCs to gather property data. The survey was integral to understanding MHROC characteristics, ownership structures, restrictions and financing. We then sought to compile and understand this new data.

In this paper, we discuss MHCs with a special focus on MHROCs. We specifically look at the size of the MHROC market, where MHROCs are most prevalent, the different approaches to converting an MHC to an MHROC, different ownership structures, the costs and fees, and other common aspects of the MHROC market across the United States.

Key findings of our research are as follows:

- MHROCs are one of the few sources of unsubsidized naturally occurring affordable housing in the country not subject to market-based rent increases
- Out of the approximately 45,600 MHCs in the United States, we found that only 1,065, or 2.4%, are resident-owned, representing an estimated 0.09% of households in the country
- More than three quarters of the resident-owned communities in the country are in three states: Florida, California and New Hampshire
- Converting from an investor-owned community to a resident-owned manufactured housing community is difficult and often requires advanced planning, expert assistance and a favorable alignment of circumstances

[i] FHFA defines an MHC as, "a tract of land under unified ownership and developed for the purpose of providing individual rental spaces for the placement of manufactured homes for residential purposes within its boundaries."

- There are two commonly used models for converting investor-owned communities into MHROCs:
    - The limited-equity model, with a low share price and higher debt resulting in higher monthly fees. This model is nearly synonymous with the ROC USA organization, which provides technical assistance and financing, though is not dependent upon their involvement
    - The market rate model, with a higher share price, lower debt and lower monthly fees
- There are several sources that provide financing for MHROCs, including Community Development Financial Institutions such as ROC USA Capital, public programs, CMBS lenders and the Government-sponsored Enterprises (GSEs).

This paper is divided into two sections: (1) an overview of the MHROC market, which includes an analysis of our survey data and identification of MHROCs; and (2) an analysis of the different MHROC models, financing for them, as well as best practices for converting investor-owned communities to resident-owned communities.

Overview of the MHROC Market

Before examining the nuances of the MHROC market, it is important to understand the role of MHROCs in the MHC market overall.

Manufactured housing plays an important role in the housing market because it is one of the more affordable housing options available, remaining affordable without the need for public subsidies. In investor-owned MHCs, residents typically own their homes and lease the land beneath from the community owner, which can be investors, nonprofits, or governmental entities. The average cost of a new manufactured home in 2018 was $70,600[ii] compared with an average price of $296,000[iii] for a newly constructed, traditional site-built home excluding the cost of land. Pad site rents (the cost to lease the land on which the homes sit) are also very affordable, ranging from $395 per month in the Mid-Atlantic region to $573 per month in the Pacific region, with an average rent across all eight regions of $476 per month.[iv] MHC pad rents tend to be below the rates of other forms of rentals, even when housing costs are included. Generally speaking, renting in most MHCs is quite affordable, however in some circumstances it is not, particularly in areas with low incomes.

There are approximately 8.5 million manufactured homes in the United States[v] with approximately 22 million[vi] inhabitants. Many of these homes are located on private land; however, there are more than 45,600[vii] MHCs (also known as land-lease communities) operating within the United States.

[ii] https://www.manufacturedhousing.org/affordablehousing/
[iii] https://www.homeadvisor.com/cost/architects-and-engineers/build-a-house/
[iv] National Report – Manufactured Housing Communities 1H19 by Marcus and Millichap
[v] 2017 5-Year American Community Survey https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_17_5YR_DP04&prodType=table
[vi] https://www.manufacturedhousing.org/affordablehousing/
[vii] https://hifld-geoplatform.opendata.arcgis.com/datasets/mobile-home-parks/data

Exhibit 1: Manufactured Housing Statistics

Residents	Homes	Communities	Resident-owned Communities
22,000,000	8,500,000	45,600	1,065

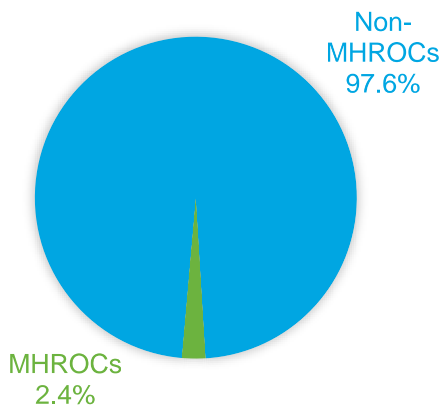
Sources: Freddie Mac, MHI, 2017 5-Year ACS, HILFD

Initially, we identified the need to conduct research to help gauge the size and characteristics of the MHROC market, which is truly niche and not always well defined or understood. In our early conversations with MHROC market participants, we heard speculation that the total MHROC universe ranged from 500 to 1,500 communities across the nation, but there was no unified data source identifying MHROCs. We undertook a national search to identify MHROCs and created a single dataset of their locations. Through our efforts, we located a total of 1,065 MHROCs in 41 different states. As shown in Exhibit 2, this means that only 2.4% of all MHCs are resident-owned.

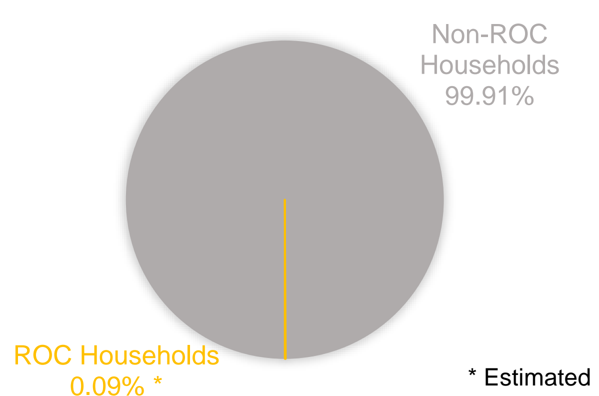
Based on the number of sites reported through the survey and in our analysis of communities in the ROC USA network, we can reasonably assume an average of 100 lots per resident-owned community. This equates to an estimated 106,500 households living in MHROCs. With 118.8 million households[viii] in the U.S., MHROCs are home to 0.09% of all households in the country.

Exhibit 2: Makeup of MHROCs

MHCs by Type



% of All U.S. Households in MHROCs



Sources: Freddie Mac Tabulations of 2017 5-Year American Community Survey, HILFD

[viii] 2017 5-Year American Community Survey

Geographic and Demographic Data for MHROCs

MHROCs can be found throughout the country, but the highest concentrations of resident-owned communities are in Florida, California and New Hampshire. Exhibit 3 shows the location of the 1,065 MHROCs found in the survey.

Exhibit 3: MHROC Location Map

Source: Freddie Mac

Florida has, by far, the most resident-owned communities in the country – with nearly 450, equating to 42% of all MHROCs in the U.S. California has 242 MHROCs, almost 23% of all MHROCs we located, while New Hampshire has 127 resident-owned communities, which represents 13% of the national total. Ultimately, over 75% of all MHROCs in the country are located in those three states. Other states with a significant number (15+) of MHROCs include Arizona, Massachusetts, Nevada, New York, Oregon and Washington. The other 32 states with at least one MHROC make up less than 13% of the MHROC market, and nine states, plus the District of Columbia, have no MHROCs.

Data shown in Exhibit 4 represents the geographic distribution of MHROCs by type of market, along with aggregated census tract-level data. In this table we analyze ROC USA's co-ops together. While 124 of 220 are located in New Hampshire, there are commonalities across their properties that warrant viewing them collectively.

Exhibit 4: Geographic and Income Data of the MHROC Models

Region/Model	# of MHROCs	% Rural	% Micro-politan	% in MSA	% in DDA	% in QAP	% in Persistent Poverty County	Avg. Poverty Rate	Median Income
Florida	448	4.5%	19.0%	99.3%	13.5%	3.1%	3.6%	14.6%	$43,623
California	242	14.2%	2.9%	95.4%	16.3%	4.2%	5.8%	14.3%	$61,433
ROC USA - Limited Equity (56% in New Hampshire)	220	55.5%	38.2%	54.1%	26.8%	0%	0%	10.8%	$59,078
Rest of U.S.	155	36.8%	15.1%	78.3%	5.9%	1.3%	6.6%	16.2%	$50,179
Total/Average	1,065	22.3%	11.8%	85.1%	15.8%	2.4%	3.8%	14.0%	$54,363

Source: Freddie Mac Tabulations of 2017 5-Year American Community Survey
DDA: Difficult to Develop Area; QAP: Qualified Allocation Plan

Examining the distribution of ROC USA communities, we find that over 55% of ROC USA properties are in Duty to Serve rural areas, compared with the national average of 22%. Just over 38% of ROC USA communities are found in micropolitan areas, while 54% are found in metropolitan areas. Across the nation, 12% of MHROCs are in micropolitan areas and 85% are in MSAs. This indicates that ROC USA communities are generally in more rural locations than other MHROCs across the country.

In high opportunity areas, we find a smaller percentage of MHROCs. High opportunity areas have community characteristics or services that help their residents improve their economic standing over time. The FHFA definition includes HUD-designated Difficult to Develop Areas[ix] (DDAs) and areas identified by states in Low-Income Housing Tax Credit (LIHTC) Qualified Allocation Plans (QAPs) providing high opportunity for their residents. About 27% of ROC USA communities are in DDAs, while no communities are situated within QAP areas. Roughly 13% of MHROCs in Florida are located in DDAs and 3% are located in QAP areas. In California, 16% of communities are in DDAs and 4% are in QAP areas. Across the rest of the country, 6% of MHROCs are in DDAs and 1.3% are in QAP areas.

Underscoring the need for these types of communities, the average poverty rate in census tracts which contain MHROCs in California and Florida is around 14%, while the average poverty rate for census tracts with a ROC USA community is 11%. Census tracts with communities in other parts of the country have the highest poverty rate at 16.2%. The poverty rates in the census tracts with MHROCs are in line with the 2017 national average of 14%.

[ix] DDAs are areas with rents that are high relative to area median incomes and are proxies for high opportunity areas. Additionally, areas with a poverty rate at or above 10% in metropolitan areas and at or above 15% in non-metropolitan areas are excluded from FHFA's definition of a high opportunity area.

In terms of median income, Florida MHROCs rank the lowest at $44,000 per year, followed by MHROCs in the rest of the county, then ROC USA's communities. Communities in California have the highest median income, in excess of $61,000 annually. The low-median income in Florida MHROCs is most likely attributable to the significant population of retired residents on fixed incomes. For comparison the median income across the nation was $53,363 in 2017.

Unique Aspects of the Top Three States: Florida, California and New Hampshire

Florida

Florida's large concentration of MHROCs is likely driven by the interplay between two factors: (1) the large population of seasonal residents purchasing second homes in the state, and (2) the regulatory environment of the state, which supports conversions to MHROCs.

Temporary residents often look for low-cost second homes, boosting the demand for manufactured housing in both investor-owned and resident-owned communities. The U.S. Census does not track seasonal residents specifically, so the exact number is unknown; however, it is estimated that 900,000 to 1,000,000 temporary residents come to Florida every winter.

According to the National Consumer Law Center[x], tenant protection laws in Florida require community owners to issue an Intent to Sell notice and the right of first refusal at least 45 days before the community is sold. This means that the residents are notified that their community is about to be sold. If they present a matching offer within the allotted time frame, the owner is obligated to sell the community to the residents. There are stringent requirements for the residents, including that they must be organized into an association in order to receive the notice. The owner is also not required to provide a notice to the association if the owner receives an unsolicited offer to sell the community. Nonetheless, the tenant protection laws in Florida provide a chance for residents interested in acquiring their communities a significant opportunity to do so, and likely contribute to the large numbers of MHROCs in Florida.

California

California is distinct in that rent stabilization has been a driving force behind resident-owned community formations. Rent stabilization limits rent increases, thereby limiting community owners' economic upside and ability to recoup costs of large improvements, such as utility upgrades or repairs. Even before California passed statewide rent restriction in October of this year, residents in MHCs in nearly 100 cities and counties had some form of rent control or stabilization in place.[xi] Generally speaking the laws already in place limiting rents at MHCs are more restrictive than the recently signed statewide law and are not superseded by the new legislation. Given the restrictions on rent increases, many community owners choose to sell their communities when large capital expenditures are necessary. At the same time, rent regulations incentivize tenants to stay, creating well-occupied and stable communities with moderate and stable values. Depressed community value and deferred maintenance along with the tenant protections discussed below create an opportunity for residents to organize and purchase their community from the owner. Through outreach we have learned that tenant groups that do band together often feel that the

[x] https://www.nclc.org/images/pdf/manufactured_housing/Summary-of-MH-state-purchase-oppty-laws-July-2018.pdf
[xi] https://mhphoa.com/ca/rso/

community has been mismanaged and believe they could do a better job of running the community directly and with their interests at heart.

California also provides some protections to residents interested in acquiring their community. According to the National Consumer Law Center, California requires community owners to provide at least a 30-day notice to tenants before listing the community for sale or offering to sell the community to a third party. This provides the residents with an opportunity to purchase their community, however, they must satisfy a few requirements as well. In order to receive the Intent to Sell notice from the community owner, the residents must form an association and once a year, they must send a letter to the community owner stating their intent to purchase the community. These protections provide a window of opportunity for organized residents eager to turn their community into a cooperative. The large number of MHCs within California, as well as rent stabilization and resident protections, are all forces that likely result in California having the second highest number of MHROCs in the nation.

New Hampshire

The limited equity model defined later in the report is concentrated in New England, particularly New Hampshire, where the vast majority of limited-equity ROCs are located. This is connected to the efforts of ROC USA, an organization that specializes in assisting residents in acquiring their communities from the current owners. ROC USA was established in 2008 and is based on a model that was pioneered by the New Hampshire Community Loan Fund dating back to the 1980s. In total, ROC USA and the New Hampshire Community Loan Fund have supported the conversion of 220 MHROCs as of June 2018. Over time, ROC USA has expanded to a total of 15 states and has helped convert over 200 investor-owned MHCs to resident ownership, though the concentration remains in New Hampshire.

This success in New Hampshire can also be partially attributed to the regulatory environment in the state. According to the National Consumer Law Center, New Hampshire requires a community owner to provide advance notice to each resident of the community ahead of any sale. Unlike in Florida or California, each resident is entitled to receive the notice even if a resident association has not been formed. There is no right of first refusal granted to the residents, but the community owner must negotiate with them in good faith. Here the combination of tenant protections and a robust support network created by ROC USA has led to a large number of MHROCs in the state.

MHROC Survey Results

Once we identified the 1,065 MHROCs across the country, we attempted to contact each of them via mail, email and phone. We asked each respondent more than 40 questions pertaining to their role within the MHROC, the physical characteristics of their community, the ownership structure, costs and fees, restrictions, and financing questions pertaining to both the community and the individual respondent's share price. The results of this survey are discussed below.

Exhibit 5: Summary of Survey Reponses

Region/ Model	# of MHCs	# of MHROCs	Survey Responses	Typical Share/ Membership Price	Maintenance Fees/Mo.	% Renters	Non-Member Pad Rent/Mo.	Age Restriction %
Florida	5,561	448	46	$40,000+	$100-$199	19%	$600+	96%
California	5,041	242	33	$20,000-$39,999	$100-$199	11%	$600+	67%
ROC USA - Limited Equity Model	NA	220	45	$1-$499	$300-$399	4%	$400-$499	16%
Rest of U.S.	35,040	155	14	$1-$499	$100-$199	9%	$100-$199	50%
Total	45,642	1,065	138	$1-$499	$100-$199	12%	$600+	58%

Sources: Freddie Mac, HIFLD

Survey responses indicate a relatively low percentage of renters (non-members) at ROC USA communities. They have the lowest share of renters due to their extremely low upfront membership price, with renters reportedly occupying just 4% of sites. Resident-owned communities in Florida have the highest share of renters, but rental homes in Florida MHROCs still average less than 20% of sites based on the survey results. California and the remainder of the United States are between the two extremes at 11% and 9% respectively.

In Florida, 96% of the respondents noted some form of age restriction. In California roughly two-thirds of the survey respondents reported age restrictions, while half of the communities located in other parts of the country reported the same. ROC USA communities have age restrictions at just 16% of their communities. Most commonly, age restrictions limit residents to 55 years of age or older. See the Appendix for additional survey responses.

Exhibit 6: Generalities of the MHROC Regions

Region/Model	Membership Price	Community Debt	Maintenance Fee	Share of Owners
Florida	Higher	Lower	Lower	Lower
California	Moderate	Moderate	Moderate	Moderate
ROC USA - Limited Equity	Lower	Higher	Higher	Higher

Source: Freddie Mac

As discussed previously, in an MHROC community the member owns their home and buys a membership or share, which allows their home to occupy the site. The typical membership, or share price, for an MHROC in Florida is over $40,000, while in California it typically ranges from $20,000 to $39,999. The typical membership fee for ROC USA communities is usually less than $500, based on the survey results. The low membership price results in the residents of ROC USA communities having the highest maintenance fees, typically ranging from $300 to $399 per month due to the higher levels of monthly debt service. The maintenance fees in the rest of the country are much lower, usually $100 to $199 monthly. Across Florida and California, typical site rent within the MHROC is in excess of $600 per month for non-members, reflecting greater desirability in the communities and higher overall land values. Like any other real estate, areas with higher demand can command significantly higher rents. JLT is a data provider on the rental MHC market and according to their latest Market Report[xii] from May 2019, the average pad site rent in Miami-Dade County, Florida was $647/month and $1,302/month for Orange County, California. This shows that residents in MHROCs can pay less per month than tenants in investor-owned communities.

As part of the survey, we also asked questions about the financing of the communities. Responses varied greatly and the margin of error was high enough that we concluded that the data was not sufficiently reliable for detailed analysis. Because the survey responses to questions about financing were so varied, we believe that many of the residents are unlikely to be actively looking at refinance opportunities.

[xii] https://reports.datacompusa.com/

Analysis of MHROC Models, Financing and Best Practices

While MHROCs are a small portion of the overall MHC market and the rental housing market broadly, their importance to their residents is great. In this section, we examine the reasons residents may choose to pursue ownership, the different models for doing so, financing options for MHROCs, and best practices for converting to and operating these communities.

Motivations and Challenges of Converting an Investor-Owned MHC to a Resident-Owned Community

Why Convert to a Resident-Owned Community?

Once a manufactured home is placed on a lot, it is very expensive to move; a move of less than 100 miles is estimated to cost between $5,000 and $8,000 for a single-wide home and $10,000 to $13,000 for a double-wide home.[xiii] In addition, after a manufactured home is placed for the first time, moving the home a second time can result in structural deficiencies. Older homes are at risk of simply falling apart over the course of a move. As a result, homeowner tenants become tied to the land underneath their homes, and, by extension, to the community itself.

Although residents can sell their home within the community, that decision may not be economically viable. Since it is usually impractical to move the home, the quality of the community is also a factor. As a result, tenants become dependent on their community. If community owners institute excessive rent increases, fall behind on maintenance, or engage in general mismanagement, the homeowner residents can be negatively impacted with little recourse.

Resident-owned communities are one potential solution for MHC tenants who wish to have more control over their community and housing costs. Because the residents come together to collectively own and manage their community while retaining individual ownership in their homes, they are able to retain their most valuable asset – their home – while having input into their community's management. They set their own maintenance fees[xiv], decide what amenities and services they want, and they determine their own capital needs. Finally, they eliminate the possibility that their community will be redeveloped for another use or sold without their input or consent.

Since most resident-owned communities are not for-profit, their priorities differ from for-profit investor communities. In a typical MHROC, the community operates near breakeven, where the incoming maintenance fees from the residents are enough to cover operating expenses and build necessary reserves, but no more. This ensures the community has all the funding necessary to operate while minimizing monthly expenses for shareholders. A few years post conversion, the monthly maintenance fees paid by MHROC residents are typically lower than comparable market-rate pad rents in an investor-owned community. The main reason for higher pad rents at investor communities is the investor's need to seek economic returns, while shareholders in a resident-owned community have no such need, and any excess collections by the community are retained by the community.

[xiii] https://www.moving.com/tips/moving-mobile-home-expect-pay/

[xiv] Some MHROC residents also call their monthly maintenance fee "rent," but in this paper we will use the term "maintenance fee" to distinguish this from pad rents charged to tenants who haven't joined the co-op or pad rents charged in traditional, investor-owned MHCs

In some cases, the communities are set up as for-profit cooperative corporations with shareholders' interests prioritized ahead of economic returns. However, based on our research, those structures appear to be less common and may be driven by specific state or local regulations, tax laws, and income distribution concerns. Despite some organizational differences, the overall structure and operations remain largely the same as nonprofit cooperatives.

Challenges to Converting Investor-Owned MHCs to MHROCs

Converting an MHC to an MHROC is difficult, and often requires advanced planning, expert assistance and a favorable alignment of circumstances. For a community to become an MHROC, various events must happen nearly simultaneously, which helps explain why MHROCs are rare.

1. A community must be put up for sale
2. The residents must want to own the community
3. A well-organized core tenant group equipped with the knowledge needed to navigate what will likely be a complex financial transaction must be present
4. Sufficient equity or equity-equivalent financing must be available
5. Specialized debt financing products reviewed below, must be available
6. Adequate technical assistance must be provided as discussed on the following pages
7. The owner must choose to sell to the residents (assuming the residents do not have a right of first refusal)

All these steps must also happen quickly, since even in the few states where an "Intent to Sell" notice is required by law and the tenants have the right of first refusal, they typically only have 45 days or less to prepare a competing offer. If a tenant group is not formed, organized and prepared to act before a community is put up for sale, it is unlikely they will be able to coordinate in time to successfully purchase their community.

Standard Models for Purchasing and Operating MHROCs

There are two basic models for purchasing and financing MHROCs, with some variations depending on location or unique circumstances: the limited-equity model and the market-rate model.

The limited-equity model enables a low membership or share cost and minimal upfront monetary contribution from the residents. This model relies on subsidies and high-leverage loans to cover the required capital needs. The "equity" in the deal is secured through grants and subordinate mortgage financing. Often, limited equity deals reach loan-to-cost (LTC) ratios above 100% in order to account for the purchase price and the necessary closing costs. Typically, share prices are not allowed to appreciate and share equity cannot be gained, however the value of the home may appreciate over time.

The market-rate model requires residents to contribute a substantial amount of equity per share to acquire their community. In contrast to the limited-equity model, loan-to-values (LTVs) for the market-rate model are much lower. These transactions are also less likely to require subsidies and share price appreciation is possible.

The Limited-Equity Model — and the Role of ROC USA

In the limited-equity model, a membership is generally priced at $100-$500, which results in very little to no equity being contributed by the community residents. These MHROCs are run through a nonprofit cooperative and operate very much like a condominium in that they include a Board and voting rights for each member. The key distinction from a condominium regime is that the land and amenities are owned by the cooperative. The limited-equity model is largely synonymous with ROC USA, however, it is an approach that can be utilized without ROC USAs involvement when the financing is available.

The limited equity invested in the conversion results in the need for a larger loan and therefore higher debt service, which ROC USA (and other financing providers) have been able to accommodate. As a result of a higher debt load, residents generally pay higher monthly maintenance fees than under the market-rate model to cover the cost of debt in addition to upkeep, maintenance and accumulating reserves for future expenditures. It is important to note that, while maintenance fees are typically equal to or higher than market-rate pad rents during the initial takeover by the residents, they usually increase at a slower pace than market-rate rents and are typically lower than market rents by year five following the conversion. An analysis by ROC USA showed that, in 2017, the average monthly maintenance fee at their cooperatives increased by 0.86% over the year, while rents at nonresident-owned communities increased by 3.9%[xv], which is a significant savings for these residents who have modest or fixed incomes.

Despite the low monetary contribution required to join a limited-equity model community, ROC USA only requires that a minimum of 51% of the residents buy memberships at the time of conversion. Per conversations with ROC USA, we understand that in practice, 75% or more of residents typically buy into the cooperative before conversion. Post-conversion, this number grows quickly, and usually membership increases to 90% or higher by the end of the first year. Residents who choose not to become part of the cooperative continue leasing their spaces and paying market rent. The only difference is that they are now leasing from the cooperative instead of the previous owner. If a non-member renter moves and sells their home, the new owner must become a member of the cooperative.

As a condition of working with ROC USA, residents agree to limit membership prices to the initial purchase price. In other words, the value of the memberships cannot appreciate and the residents' shares cannot gain equity. If the community is sold to a third-party investor and reverts to a rental regime, any profits made from the sale must be donated to an affordable housing nonprofit.[xvi]

The limited-equity model is generally considered a way to preserve affordable housing with minimal upfront costs to the residents, while giving them more control over the community. The loans the residents rely upon are usually in excess of the community's monetary value or cost. However, the real value to the MHROC residents is having a voice in how their community is run and a secure future for their home.

The Market-Rate Model

The market-rate model is similar to the limited-equity model with a few differentiating characteristics. Like the limited-equity model, residents come together to form a cooperative and buy their community. Their

[xv] https://rocusa.org/news/homeowners-saving-more-than-775000-a-year-in-just-23-rocs/
[xvi] Per conversations with ROC USA and https://rocusa.org/market-rate-and-limited-equity-co-ops-explained/

organizational structure is also usually analogous, consisting of resident members and an elected Board to oversee the community.

The primary difference between the limited-equity model and the market-rate model is in the membership or share price. Unlike the limited-equity model, where subsidies or specialized loans help to cover some of the costs of conversion, in the market-rate model, 100% of the equity is supplied by the residents. The funds supplied by the community residents are used to bridge the gap between the loan value and purchase price of the community, plus the closing costs. If the community is large or is in an area where land is valuable, the community purchase price may be $20 million or more with a share price or membership in excess of $40,000. Since a significant amount of capital is used to purchase the community, the percentage of debt that is required is lower than in the limited-equity model, meaning monthly maintenance fees are generally lower with the market-rate model. Another key differentiator is that shares can appreciate in price and members can accumulate equity in their share.

The downside of the high share or member price is lower participation rates among the community residents, which may not increase over time. Some MHROCs mitigate this through the availability of bulk financing for the cost of their memberships. This type of financing may come from private third parties or financial institutions, but securing financing for shares can be difficult and some cooperatives struggle to achieve high participation rates.

Low membership or shareholder rates creates its own set of challenges. Generally, the greater the percentage of members, the easier it is for the Board to effectively run the community. For example, in a case where the property's septic system requires expensive repairs and reserves are insufficient to cover the cost, the members can come together and collectively decide to raise additional funds or special assessments to pay for the necessary repairs. The burden of the special assessments applies only to the members and usually cannot extend to non-member renters who simply sign a lease for a specified amount of rent. A greater participation rate results in less of a financial burden on each individual member when unexpected expenses arise.

Financing for MHROCs

Regardless of the model an MHROC pursues — limited equity or market rate — financing requires special attention and loan offering characteristics. This is due to two significant factors: (1) in the limited-equity model, there is a strong reliance on debt financing in excess of the appraised value of the property (pre-conversion); and (2) the property value of MHROCs cannot be reasonably determined post-conversion.

The reliance on high-LTV lending for the limited-equity model is satisfied by innovative lending programs like that of ROC USA Capital or certain local programs, like those in California or Oregon, which are discussed below.

The lack of a true property value is because MHROCs do not trade: One MHROC does not buy another. The only transaction that may take place after an MHROC is formed is the return to a traditional investor-owned regime. Determining value using average membership prices is also not an accurate representation of value, because membership prices can be deflated to attract members and the membership price may vary depending on the structure of the MHROC. To measure the value of a resident-owned cooperative is to not only consider the monetary value, but also the intrinsic benefits which cannot be monetized as they are based in feelings of security and having control over the

community's future. This contributes to the unique aspect of financing MHROCs. This holds true not just for conversions to MHROCs, but also for any refinance. Freddie Mac took these unique characteristics into consideration when establishing the MHROC loan offering, described below.

ROC USA Capital

ROC USA Capital, a Community Development Financial Institution (CDFI), provides senior and subordinate debt in place of equity for many of the communities within the ROC USA network. Typically lending in excess of the appraised value, they help residents cover closing costs and establish operating reserves. This allows the residents to purchase their community and take control of their land with little or no down payment. ROC USA is comfortable with the risk in their investments due to their long track record of successful conversions. None of their communities has been resold, filed for bankruptcy, or faced foreclosure. Their technical assistance providers further mitigate these risks by helping the residents with all aspects of the purchase, financing and helping the cooperative function after the purchase through the end of the loan term. Typically, more assistance is provided when the cooperative is new, but as the community matures and the cooperative gains experience, the amount of technical assistance is moderated. ROC USA reports that its technical assistance and leadership development is critical to the long-term success of the ROC USA program and the communities they support.

ROC USA Capital is able to provide these loans as a result of low-interest rate loans or grants provided to ROC USA by third-party institutions such as banks, foundations, or insurance companies.

State and Local Programs

State or local programs can also be an important source of financing for MHROCs. California and Oregon both have active programs to support MHROCs and below we highlight their programs as examples of how state financing can be structured.

In California, the Mobilehome Park Rehabilitation and Resident Ownership Program[xvii] (MPRROP) provides financing for the purchase of a mobile home park by a resident organization, nonprofit housing sponsor, or local public agency. In addition, they assist low-income residents in financing the purchase of shares in a converted community and provide low-cost loans for repairs or accessibility upgrades.

The program offers the following loans:

- Short-term conversion loans: loans at up to 3% interest for up to three years to enable a resident organization, nonprofit sponsor, or local public agency to purchase an MHC
- Long-term blanket loans: loans at up to 3% simple annual interest for up to 40 years for long-term financing of a park purchase, rehabilitation, or relocation of a purchased community
- Long-term individual loans: loans at up to 3% simple annual interest for low-income residents of an MHC who converted to ensure affordability, to purchase a share or interest in the community

[xvii] http://www.hcd.ca.gov/grants-funding/active-funding/mprrop.shtml

In addition, the program provides funds for training and technical assistance to lower income MHC residents and community-based nonprofit organizations.[xviii]

In Oregon, Oregon Housing and Community Services operates a Manufactured Dwelling Parks Preservation program. This program is managed via a Notice of Funding Availability (NOFA) and is available to both nonprofits seeking to acquire and preserve MHCs or residents wishing to form a co-op by purchasing their community and converting it to resident ownership. In 2019, Oregon has made available both $8 million of gap funds and $16 million of Oregon Affordable Housing Tax Credits (OAHTC). The tax credits are provided to the senior lender (if that lender has a tax liability in the state) to the community in exchange for the lender reducing the interest rate on the loan.[xix] Among the gap funds is a soft set-aside of $4.5 million for MHROC conversions that becomes available more broadly if not used for ROCs by a date specified in the NOFA. All gap funds are awarded as a grant. In exchange, recipients must agree to a minimum of 60 years affordability with 60% of the sites in the community occupied by residents making 80% area median income or below. Grant funds must be returned if there is a change in the property's use of affordability.

CMBS Conduit Lenders

MHROCs have accessed financing from lenders that act as conduits for Commercial Mortgage-Backed Securities (CMBS) issuers. CMBS lenders have been active in the MHC market since the late 1990s and continue to be active today. According to data from Trepp from 2015 through 2018, 411 MHCs were financed through CMBS with an original loan balance of $2.975 billion.

Typically, CMBS loans on MHCs are non-recourse 5- to 10-year fixed-rate loans with a maximum of 75%-80% LTV and a minimum of 1.25x debt service coverage.[xx] We have not found evidence of specific MHROC terms by conduit lenders. Given that two of the three MHROCs Freddie Mac purchased loans on were refinances of existing CMBS debt, this suggests that market-rate MHROCs, at least, can access traditional CMBS loans.

Freddie Mac MHROC Loans

In July 2018, Freddie Mac launched an official offering for MHROCs. The offering is open to refinances and conversions/acquisitions. We offer fixed-rate loans for terms ranging from five to 30 years, and we cater to both limited-equity communities and market-rate communities alike with the goal of expanding access to financing for this niche market and supporting the preservation of affordable housing.

Since the launch of Freddie Mac's Manufactured Housing Community Loan offering in 2014, we have successfully completed three MHROC refinances. Two occurred in 2016 and one in 2018. All three deals were in California. In each case, our financing provided a lower cost of capital to the cooperatives, allowing them to save money and replenish their reserves.

[xviii] http://www.hcd.ca.gov/grants-funding/active-funding/mprrop.shtml#memos, http://www.hcd.ca.gov/grants-funding/active-funding/mprrop/docs/MPRROP-NOFA-Amendment-3.pdf
[xix] https://www.oregon.gov/ohcs/HD/HRS/pdfs/factsheet-oregon-affordable-housing-tax-credit-program.pdf
[xx] https://cmbs.loans/mobile-home-park-cmbs-loans

Our first MHROC refinance was a 136-pad, age-restricted, market-rate community located in Yucca Valley, California. Freddie Mac issued a $3,600,000, 10-year, fixed-rate loan, helping to refinance the cooperative's previous debt from a commercial finance bank at a lower rate. In addition, the cooperative was required to use some of the funds to remedy maintenance issues and replenish reserves. This was a limited-equity cooperative where memberships were very inexpensive to encourage members to join and the cost of memberships has not appreciated over time.

Our next community we refinanced was a 48-pad, all-age, market-rate MHROC located in Aptos, California. Freddie Mac issued a $1,820,000, 10-year, fixed-rate loan, helping to refinance the cooperative's previous CMBS debt at a lower rate. The cooperative was required to use some of the funds to replenish reserves.

The third community we refinanced was a 126-pad, all-age market-rate MHROC located in American Canyon, California. Freddie Mac issued a $5,000,000, 15-year, fixed-rate loan, helping to refinance the cooperative's previous CMBS debt at a lower rate.

Best Practices for Converting to and Running Resident-owned Mobile Home Communities

As part of our research, we spoke to various industry participants including brokers, originators, attorneys, ROC USA, resident-owned community board members and MHC investors. Our goal was to understand their unique perspectives, including challenges and benefits associated with this niche market.

Our conversations reaffirmed that new cooperative formations are difficult due to the many components that must fall into place. Based on the various conversion stories that we heard, most agreed that the following factors lead to success:

- A motivated residency group eager to purchase the community
- A community owner willing to sell at a reasonable price
- Economically viable monthly fees and capital improvement plan
- A residency group with strong leadership that can influence the community
- A group of professional consultants willing and able to help the ownership group through the process
- Depending on the size of the community, either an empowered management company or ongoing technical support to assist the Board in running the community

Motivation for community residents to organize occurs for various reasons, but some of the most commonly mentioned include failure of the prior owner to maintain the community and frequent or severe rent increases. Anecdotal evidence suggests that even owners struggling to maintain the premises may be reluctant to sell. In worst case scenarios, residents can be forced to take drastic steps and sue for failure to maintain the community or other such cause. While this can motivate an owner to sell, we heard that in those situations, the lawsuit and subsequent sale may drag on for years, making an already difficult situation worse.

Even with a highly motivated resident group, and assuming all elements align, the purchase timelines are lengthy, and it may take over a year to complete a purchase. Unlike investor groups who have dedicated acquisition teams made up of real estate professionals, cooperatives are made up of their residents, who often have little to no real estate experience. Additionally, depending on the size of the community, obtaining consensus from all residents can be challenging. Typically, successful resident groups elect a

ore group that takes leadership of the process and communicates with the rest of the community. Communities that use the limited-equity model need a minimum of 51% of residents to be willing to purchase the community, and for market-rate models, up to 80% of the residents would need to be members in the cooperative to make the deal feasible. All these steps take time, and in some cases a community owner may choose to sell to another experienced investor simply because that process is usually quicker and easier.

Based on our research and the conversations we had, residents should engage with professional consultants, including brokers, to lead them through the financial aspects of the transaction, and legal advisors to help them navigate the formation of the cooperative entity. Once the acquisition is complete and the cooperative is up and running, the challenge becomes successfully running the community. For larger MHROCs, an experienced management company is important to the success of the community. The ROC USA model requires that a technical assistant nonprofit be in place to help the residents with operations as well.

A consistent theme emerged throughout our conversations: Residents of these communities were willing to go to great lengths to secure their futures, and despite the work and the challenges they do not regret their decision to take over the community. When asked about community failures, the resounding answer was that they are very rare, but we are not able to determine the exact number.

Conclusion

Manufactured housing is home to roughly 22 million Americans and is one of the most affordable housing options for lower income and retired households. It is very difficult for an investor-owned MHC to be converted to resident ownership as many elements must fall into place. As such, the MHROC market is small, with just over 1,000 communities across the country. They are primarily located in three states: Florida, California and New Hampshire, which combined account for three out of four MHROCs in the nation. We estimate MHROCs represent just over 2% of all MHCs and less than 0.1% of households nationwide.

There are two models for how MHROCs are operated: the limited-equity model and the market-rate model. Under the limited-equity model, almost no capital is required of the community residents as part of the acquisition. The byproduct of the lack of initial capital is higher monthly debt service, in addition to the fees required to operate and maintain the community while building reserves. The market-rate model has higher share prices, but as a result has lower monthly maintenance fees. Though the unique aspects of MHROCs make financing challenging and specialized, MHROCs can obtain mortgages for conversions and refinances through various sources, including CDFIs, state or local programs, and GSEs.

MHROCs are unique in that they allow residents to collectively own and manage their communities. They allow for a peace of mind and financial security. According to residents, having that security is worth every challenge needed to get there. However, MHROCs are not necessarily a universal solution given the difficulty in scaling the model, the tremendous effort required to organize and perseverance in operating. They require passion and dedication, but with that passion and dedication, MHROCs have the potential to materially improve the lives of their residents.

Appendix: Detailed Survey Results

	California		Florida		ROC USA		Other Areas		Total	
	Responses		Responses		Responses		Responses		Responses	
	#	%	#	%	#	%	#	%	#	%
Is the community resident owned?										
Yes	33	100.0%	46	100.0%	45	100.0%	14	100.0%	138	100.0%
No	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Is the community for profit?										
Yes	2	6.3%	2	4.4%	3	7.3%	7	50.0%	14	10.6%
No	30	93.8%	43	95.6%	38	92.7%	6	42.9%	117	88.6%
Don’t know	0	0.0%	0	0.0%	0	0.0%	1	7.1%	1	0.8%
Ownership structure of the community										
Fee simple	10	34.5%	7	15.2%	0	0.0%	1	7.1%	18	13.4%
Resident-owned cooperative	4	13.8%	23	50.0%	39	86.7%	3	21.4%	69	51.5%
Resident-owned corporation	9	31.0%	11	23.9%	6	13.3%	7	50.0%	33	24.6%
Resident-owned condominium	5	17.2%	3	6.5%	0	0.0%	0	0.0%	8	6.0%
Other	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Don’t know/not sure	1	3.4%	0	0.0%	0	0.0%	0	0.0%	1	0.7%
Something else (specify):	0	0.0%	2	4.3%	0	0.0%	3	21.4%	5	3.7%
What is the community's age (years)?										
Average	38		40		20		36		33	
Median	38		43		13		40		35	
How long has the community been resident owned (years)?										
Average	28		25		10		26		20	
Median	29		24		7		28		20	
Number of sites at the community										
Average	130		291		69		189		158	
Median	147		285		56		116		111	
% are owner occupied sites										
Average	90%		83%		98%		93%		90%	
Median	98%		90%		100%		100%		98%	
% of renters										
Average	10.7%		18.6%		3.9%		8.9%		11.9%	
Median	2.5%		10.0%		1.0%		3.0%		5.0%	
Share cost										
$1-$499	3	9.1%	3	6.5%	26	57.8%	4	28.6%	36	26.1%
$500-$1,999	1	3.0%	2	4.3%	14	31.1%	0	0.0%	17	12.3%
$2,000-$4,999	0	0.0%	0	0.0%	1	2.2%	0	0.0%	1	0.7%
$5,000-$9,999	1	3.0%	0	0.0%	0	0.0%	1	7.1%	2	1.4%
$10,000-$19,999	2	6.1%	3	6.5%	0	0.0%	0	0.0%	5	3.6%
$20,000-$39,999	4	12.1%	12	26.1%	0	0.0%	1	7.1%	17	12.3%
$40,000 or more	3	9.1%	17	37.0%	0	0.0%	0	0.0%	20	14.5%
Don’t know/not sure	19	57.6%	9	19.6%	4	8.9%	8	57.1%	40	29.0%
Maintenance fee										
Less than $100/month	7	23.3%	5	11.1%	5	11.1%	1	8.3%	18	13.6%
$100 - $199/month	9	30.0%	28	62.2%	0	0.0%	4	33.3%	41	31.1%
$200 - $299/month	6	20.0%	10	22.2%	7	15.6%	2	16.7%	25	18.9%
$300 - $399/month	3	10.0%	1	2.2%	11	24.4%	2	16.7%	17	12.9%
$400 - $499/month	4	13.3%	0	0.0%	8	17.8%	1	8.3%	13	9.8%
$500 - $599/month	1	3.3%	1	2.2%	4	8.9%	0	0.0%	6	4.5%
$600-$799/month	0	0.0%	0	0.0%	2	4.4%	0	0.0%	2	1.5%
$800-$999/month	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
$1,000 or more a month	0	0.0%	0	0.0%	1	2.2%	0	0.0%	1	0.8%
Don’t know	0	0.0%	0	0.0%	7	15.6%	2	16.7%	9	6.8%

	California		Florida		ROC USA		Other Areas		Total	
	Responses		Responses		Responses		Responses		Responses	
	#	%	#	%	#	%	#	%	#	%
Rent for non-owners										
Less than $100/month	1	3.0%	2	4.3%	0	0.0%	0	0.0%	3	2.2%
$100 - $199/month	0	0.0%	1	2.2%	0	0.0%	3	21.4%	4	2.9%
$200 - $299/month	1	3.0%	2	4.3%	3	6.7%	1	7.1%	7	5.1%
$300 - $399/month	3	9.1%	4	8.7%	8	17.8%	2	14.3%	17	12.3%
$400 - $499/month	2	6.1%	5	10.9%	13	28.9%	2	14.3%	22	15.9%
$500 - $599/month	0	0.0%	7	15.2%	5	11.1%	0	0.0%	12	8.7%
$600 or more a month	11	33.3%	12	26.1%	4	8.9%	0	0.0%	27	19.6%
Don't know/not sure	15	45.5%	13	28.3%	12	26.7%	6	42.9%	46	33.3%
Does your community have an age restriction?										
Yes	22	66.7%	44	95.7%	7	15.6%	7	50.0%	80	58.0%
No	11	33.3%	2	4.3%	38	84.4%	7	50.0%	58	42.0%
Does your community have a rent restriction?										
Yes	19	63.3%	37	80.4%	24	53.3%	5	35.7%	85	63.0%
No	11	36.7%	7	15.2%	17	37.8%	7	50.0%	42	31.1%
Don't know/not sure	0	0.0%	2	4.3%	4	8.9%	2	14.3%	8	5.9%
How was your community financed?										
No financing, paid cash	3	9.1%	5	10.9%	0	0.0%	1	7.1%	9	6.5%
Non-profit	5	15.2%	1	2.2%	18	40.0%	0	0.0%	24	17.4%
Conventional bank	4	12.1%	19	41.3%	7	15.6%	5	35.7%	35	25.4%
Private lender	3	9.1%	3	6.5%	2	4.4%	1	7.1%	9	6.5%
Financed, but not sure of lender	6	18.2%	1	2.2%	1	2.2%	2	14.3%	10	7.2%
Other	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Don't know/not sure	8	24.2%	14	30.4%	5	11.1%	4	28.6%	31	22.5%
Something else:	4	12.1%	3	6.5%	12	26.7%	1	7.1%	20	14.5%
Whom did you work with to get financing?										
Through consultant	1	4.8%	0	0.0%	35	87.5%	1	11.1%	37	38.1%
Contact lender directly	3	14.3%	8	29.6%	2	5.0%	3	33.3%	16	16.5%
Through broker	1	4.8%	4	14.8%	0	0.0%	1	11.1%	6	6.2%
Other agents	3	14.3%	5	18.5%	1	2.5%	1	11.1%	10	10.3%
Other	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Don't know/not available	8	38.1%	5	18.5%	2	5.0%	1	11.1%	16	16.5%
Something else:	5	23.8%	5	18.5%	0	0.0%	2	22.2%	12	12.4%
How difficult was it to obtaining financing?										
Very difficult	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Somewhat difficult	9	42.9%	8	29.6%	11	27.5%	2	22.2%	30	30.9%
Somewhat easy	4	19.0%	9	33.3%	19	47.5%	3	33.3%	35	36.1%
Very easy	2	9.5%	5	18.5%	9	22.5%	2	22.2%	18	18.6%
Don't know/not available	6	28.6%	5	18.5%	1	2.5%	2	22.2%	14	14.4%
What was the financing rate for the community?										
Average	3.08%		2.94%		6.93%		1.95%		3.93%	
Median	3.15%		1.65%		6.38%		0.00%		4.75%	
Financing term (years)										
Average	18		11		23		11		16.3	
Median	20		10		30		7		15.0	

	California		Florida		ROC USA		Other Areas		Total	
	Responses		Responses		Responses		Responses		Responses	
	#	%	#	%	#	%	#	%	#	%
Loan to value ratio										
Average	50		11		100		25		33.9	
Median	50		0		100		10		7.0	
How satisfied were you with the terms your community received?										
Not at all satisfied	0	0.0%	0	0.0%	1	2.5%	0	0.0%	1	1.0%
Not very satisfied	2	9.5%	0	0.0%	1	2.5%	0	0.0%	3	3.1%
Somewhat satisfied	8	38.1%	8	29.6%	20	50.0%	1	11.1%	37	38.1%
Very satisfied	8	38.1%	13	48.1%	12	30.0%	5	55.6%	38	39.2%
Extremely satisfied	3	14.3%	6	22.2%	6	15.0%	3	33.3%	18	18.6%
Does your community have any plans for future funding?										
Yes	4	19.0%	5	18.5%	22	55.0%	3	33.3%	34	35.1%
No	15	71.4%	17	63.0%	9	22.5%	4	44.4%	45	46.4%
Don't know/not available	2	9.5%	5	18.5%	9	22.5%	2	22.2%	18	18.6%
How was your share financed?										
No financing, paid cash	10	62.5%	13	76.5%	26	60.5%	3	50.0%	52	63.4%
Non-profit	0	0.0%	0	0.0%	5	11.6%	0	0.0%	5	6.1%
Conventional bank	2	12.5%	2	11.8%	2	4.7%	0	0.0%	6	7.3%
Private lender	3	18.8%	0	0.0%	0	0.0%	0	0.0%	3	3.7%
Financed, but not sure of lender	0	0.0%	0	0.0%	2	4.7%	0	0.0%	2	2.4%
Other	0	0.0%	1	5.9%	6	14.0%	2	33.3%	9	11.0%
Don't know/not sure	1	6.3%	1	5.9%	2	4.7%	1	16.7%	5	6.1%
Loan rate for your share										
Average	4.8%		0.0%		0.0%		0.0%		2.0%	
Median	4.8%		0.0%		0.0%		0.0%		0.0%	
Loan term for your share (years)										
Average	19		0		13		15		13.4	
Median	30		0		8		15		5.0	
How familiar are you with FreddieMac?										
Not at all familiar	6	18.2%	10	21.7%	18	40.0%	4	28.6%	38	27.5%
Not very familiar	7	21.2%	14	30.4%	17	37.8%	3	21.4%	41	29.7%
Somewhat familiar	15	45.5%	20	43.5%	8	17.8%	3	21.4%	46	33.3%
Very familiar	2	6.1%	2	4.3%	1	2.2%	3	21.4%	8	5.8%
Extremely familiar	3	9.1%	0	0.0%	1	2.2%	1	7.1%	5	3.6%
How favorably do you view FreddieMac?										
Not at all favorable	2	8.3%	0	0.0%	2	4.4%	1	7.1%	5	3.9%
Not very favorable	0	0.0%	3	6.5%	1	2.2%	0	0.0%	4	3.1%
Somewhat favorable	12	50.0%	12	26.1%	14	31.1%	2	14.3%	40	31.0%
Very favorable	8	33.3%	7	15.2%	5	11.1%	5	35.7%	25	19.4%
Extremely favorable	2	8.3%	0	0.0%	1	2.2%	1	7.1%	4	3.1%
Neutral/no opinion	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Don't know/not sure	0	0.0%	24	52.2%	22	48.9%	5	35.7%	51	39.5%