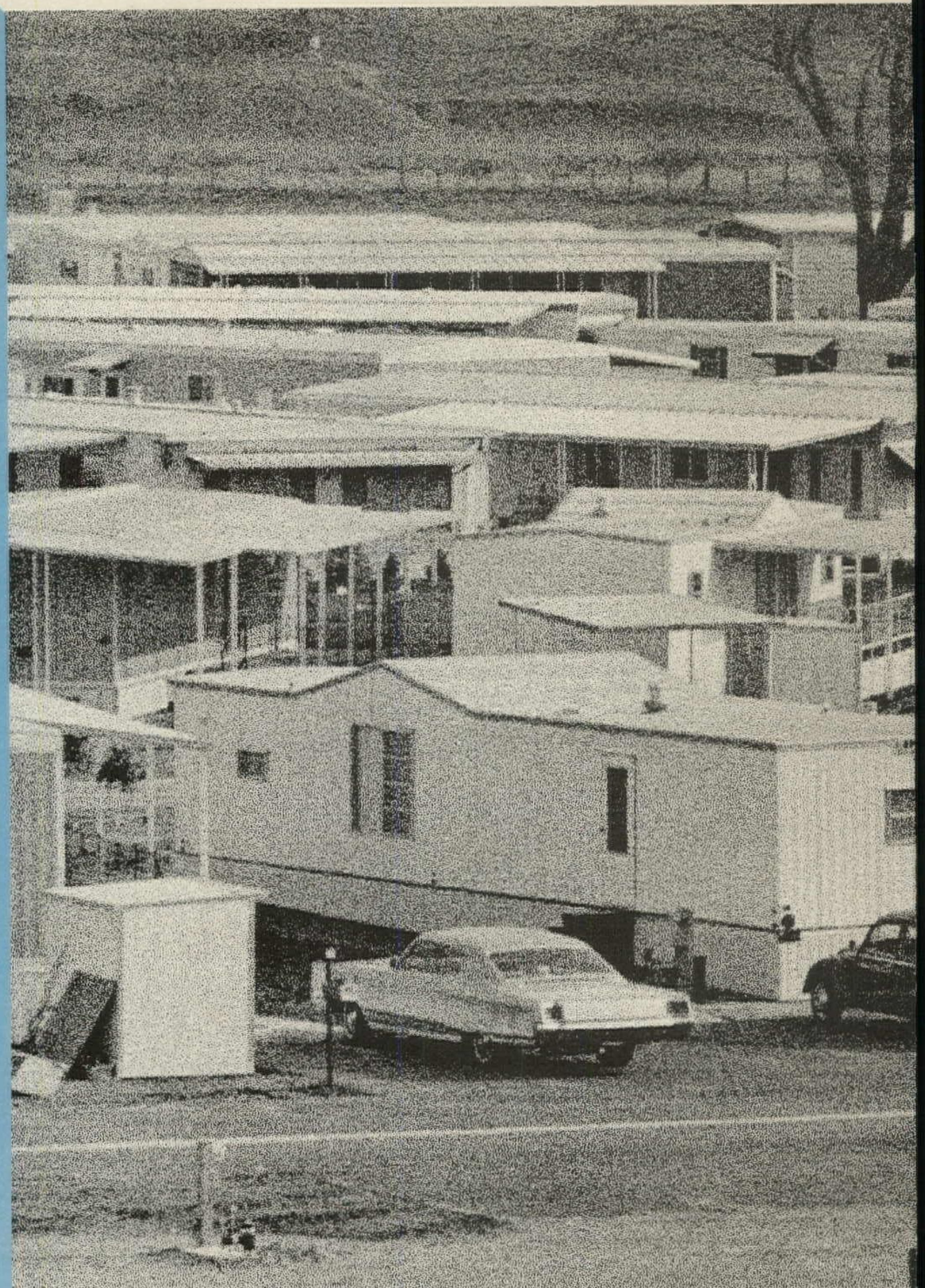
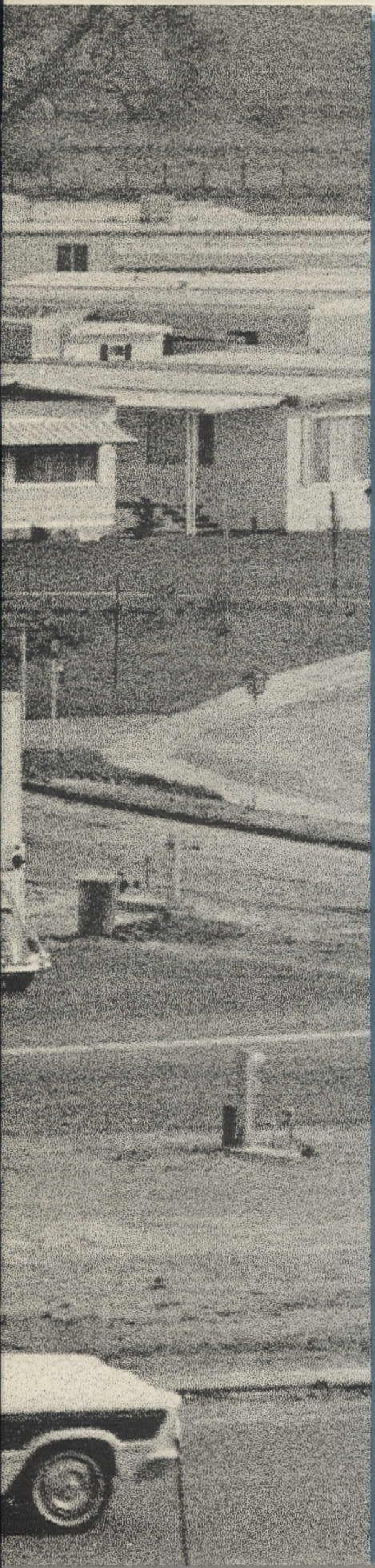
It's time to take the low-price market back from the mobiles





Mobile homes have taken a big slice of the housing market, and the slice is bound to grow even bigger unless the homebuilding industry starts competing now.

Consider the inroads already claimed by mobile-home manufacturers: for the past two years their annual shipments have topped the 400,000 mark; they account now for 95% of all new single-family housing priced below $15,000 and 46% of all new houses selling at any price.

Consider also the help mobiles are getting from high places: FHA and VA will now insure mobile-home loans, and no less a personage than President Nixon has said he considers mobiles the best answer to the shortage of low- and moderate-income housing.

None of this can be comforting to homebuilders. It means that more than 20% of the country's current housing volume is being produced by mobile-home manufacturers, sold by mobile-home dealers, and sited on land owned and developed by mobile-home developers.

Homebuilding can thank no one but itself for this situation. It has, in effect, given away the under-$15,000 market by default.

But the industry can take back much of that market.

First of all, the mobile home is not that tough competition. It is, in fact, a rather poor buy for almost anyone, and particularly for a low-income family. It has flourished up to now because almost nothing else has been available for less than $15,000.

Secondly, homebuilders *can* produce housing for this market. They have long-established expertise in the most important areas: land planning and development, design, marketing and finance. And they have a product with all of the advantages of the mobile home and few of its disadvantages —the modular house. With the combination of all these elements they can offer better housing than the mobile and at much less cost to the buyer.

It would be naive, however, to think that mobile-home manufacturers will just disappear. They have reached their present position through hard work and shrewd merchandising, neither of which will diminish in the face of increased competition. And they have also taken a solid share of the infant modular industry. In one way or another they will almost certainly remain a strong factor in the low-cost housing market.

But homebuilders can and should take their logical place as the prime movers in this market. They should be either manufacturing or controlling the house itself, handling the development of the land, and selling the houses. And they should start moving in this direction right now.

Why and how this can be done is the subject of the next eight pages.

Let's analyze the mobile home and see how well it serves the low-price market

Price: the mobile isn't as cheap as people have been led to believe

On the one hand, the Mobile Homes Manufacturers Assn. declares:

"We estimate the average mobile home in 1970 sold for $6,050. The average size was 12'x60'. And 83% of all mobile homes shipped last year were 12' wide."

But on the other hand HOUSE & HOME reporters, shopping last month in and around eight major cities, discovered that 12'x60' mobiles typically ranged in price from $6,500 to $8,500. With minor exceptions, anything cheaper was roughly in the 10'x40' category, selling at $4,000 to $5,000.

Says a HOUSE & HOME shopper from Toms River, N.J.: "A dealer/park-owner here vowed he had *nothing* for sale cheaper than a 12'x60' model for $7,900. A lower-priced mobile, he cautioned, would be junk. A few miles away, a salesman for a top-quality park just opening in this community told me his least expensive model—12'x60'—was $7,800."

The Dallas shopper for HOUSE & HOME wired: "Bargains are possible in year-end close-outs, as they are selling some 200 of last year's models for $7,395."

Furthermore, cost calculations do not end at the price tag. There is a list of necessary extras that jack up the home's price by $1,000 or so.

Thus, on a $7,000 mobile home, add these expenses: city and state sales taxes ($420 in New York City, $350 in Illinois and California); license ($100 in Dallas and Seattle); steps ($50 to $150 in Chicago); skirting ($200 in Seattle, $240 in San Francisco, $150 to $350 in Chicago); and awnings—sometimes mandatory at parks—($350 in San Francisco, $300 in Seattle).

In high-wind areas, anchors are critical. In Miami such tie-downs cost $100. And while set-up charges are usually absorbed by the dealer—or added to the home's selling price—in Chicago some buyers are paying an extra $100 to $300.

Since it is impossible to store bicycles, lawn mowers, garden tools, barbecue grills, etc., inside a 12'-wide mobile home (there is no room), small sheds for outside storage become necessities—not luxuries. Sears, Roebuck and Co. sells a 7'x10' shed for $115, a 5'x6' shed for $70.

The industry further promotes the low-cost image of mobile-home living by stressing that all mobiles are fully furnished, offering buyers a total-home environment.

So a HOUSE & HOME shopper asked a salesman in New Jersey by how much the price of a $7,800 model would drop were the unit delivered *without* furniture—but with carpeting and kitchen appliances. His answer: $200.

And what was the carpeting worth? The salesman's reply: $160.

Depreciation: in 10 years the mobile is just about worthless

Everyone within the industry knows it. There's even *The Blue Book** of used-home prices to guide dealers on trade-ins, just as there is for second-hand cars.

The lenders know, too. They limit borrowing to about seven years but will stretch to 10 years on higher-priced units.

Even the government knows. For example:

"While the life of a mobile home can vary substantially depending on make and model, climate, and the care taken by its occupants, some indication of its expected life is suggested by the typical financing period of seven years, as compared to 20 to 35 years for conventional construction. And unlike many houses, the mobile home loses a good deal of its resale value at the end of a relatively short period." So said the report of the National Commission on Urban Problems, submitted to Congress and the President, December 12, 1968.

Despite that, the general public is not aware that mobiles do depreciate in value.

Compounding the consumer's problem is the fact that the dealers—unlike their counterparts in the automobile industry—strive to minimize the depreciation factor when questioned:

The Miami HOUSE & HOME shopper reported:

"Dealers claim that even the cheapies will last 25 years with minimal care."

The San Francisco reporter-shopper wired:

"Dealers wouldn't say how much the 12'x 60' home would be worth in 10 years. They said if the home is in a quality mobile park in the Bay Area it will keep its value quite well."

The Dallas shopper reported:

"The salesman here was very evasive when I asked about value. He said he could not say what anything would be worth after 10 years. But, he added, there is 'not much depreciation' in mobile homes. 'Good used ones are hard to find,' he said. He would not give any figures on depreciation."

The Chicago reporter said:

"When I asked how much my little investment would be worth after 10 years, there was invariably a pause while the dealer gathered his story together. They all said the value will depend on the condition of the mobile home. One dealer felt the place of sale might affect the price."

*Judy-Berner Publishing Co., Westchester, Ill.

Financing: for mobiles, rates are high and terms are short

So financing is expensive for the buyer. But it's lucrative for the lenders:

The typical rates—11% and 12%—are way above mortgage levels. The average seven-year lending span—while longer than on, say, a three-year auto loan—is nonetheless easy for lenders to live with. And the downpayment, anywhere from 20% to 30%, is sufficient to offset early depreciation, building in lender protection.

The clincher: mobile-home financing is available even in tight money markets.

A better deal for the borrower appeared on the horizon in December 1969 when the FHA offered to insure personal bank loans of up to $10,000 to buy new mobiles at least 10'x40' in size. The terms: 12 years, 32 days. Down payment: 5% of the first $6,000; 10% on the remainder. Rate: 7.9% on a $10,000, 12-year loan.

But this FHA program has never really gotten off the ground because lenders think the rate is too low.

Lenders today also come out on top when a mobile-home owner decides to sell to a private individual. In such cases, the lenders refuse to refinance. Instead, title to the mobile is transferred to the second purchaser, and the original owner is held legally obligated for the loan's repayment.

Land: good mobile park space is limited—and costly

That means the doors of the better parks are often closed until the mobile-home family comes up with the proper key.

One key: some park owners demand an entrance fee. In Miami, according to HOUSE & HOME's shopper, that fee can go as high as $2,500. Exit fees also exist.

Another key: some owners say "No admittance" to anyone not buying a mobile home from them or their designated dealers. And then such prices are inflated.

Why do shortages exist? The industry's statistics* clearly answer the question:

In 1970, 404,000 mobile homes were sold; 172,000 park sites were built.

In 1969, 412,690 mobile homes were sold; 121,000 park sites were built.

Once inside any park, the family lives under the threat of eviction. Leases are seldom granted.

The mobile-home family also pays monthly rent—another expense—for its pad. Based on reports filed by HOUSE & HOME shoppers throughout the United States, typical rents at good but not outstanding parks today are: Atlanta, $50; Chicago, $80; Dallas, $45; Miami, $65; San Francisco, $70; Seattle, $50.

* Mobile Homes Manufacturers Assn. and Woodall Publishing Co., respectively.

All this adds up to high monthly payments

And they're especially high for the typical mobile-home family, which reportedly earns $10,000 a year or less.

Let's put the pieces together. Here is a picture of what a buyer of a 12'x60' mobile home has to pay:

Purchase price		$7,500
Downpayment	$1,000	
Extras (cash)	1,000	
Total cash outlay	$2,000	

Loan (7 years)		$6,500
monthly repayments on loan	$115	
Monthly rent for pad	60	
Total monthly outlay	$175	

That's $2,100 a year—a lot of money for a $10,000-family to spend on shelter.

Actually, however, that $2,100 expenditure is only a *subtotal* in the mobile family's budget. One more piece must by added:

Depreciation makes the picture even worse

To see just how bad it can get, let's estimate the family's depreciation loss at the end of five years at a conservative $3,750—half of the $7,500 purchase price.

Now spread that loss over the 60 months the family lived in its mobile home. Result: in effect, an extra cost of $62.50 each month.

Of course the family doesn't pay this out each month. But it *doesn't* get recouped when the mobile is sold.

...So the low-cost mobile winds up a pretty expensive proposition

Okay, what about the modular? Can it do the job better than the mobile?

First, let's be sure we all mean the same thing by "modular"

The modular, as used in this article, is a single-family house made up of one or two modules. After delivery its wheels and undercarriages are removed (otherwise it would be a mobile-modular), and it sits on a permanent foundation.

Other definitions used in this article:

The mobile is a single-family unit that 1) does not meet standard housing construction codes, and 2) keeps its wheels and thus is taxed as chattel rather than real estate.

The double wide is mobilese for two mobiles hitched together side by side to form one unit.

The mobile-modular is simply a modular with the undercarriage and wheels left on.

The double-wide modular is just what it says. For all practical purposes, it is also the same thing as a sectional—a term which will not be used again in this article.

Unlike the mobile, the modular is built to standard house specs

That means things like 2 x 4 studs instead of 2 x 2s. It means standard sheathing, roofing and siding, plus electrical, plumbing and heating systems that meet local housing codes.

Indeed, modulars are often better and more rigidly built than conventional houses. They have to be to survive the haul to the site without cracking wallboard, and to span the pier foundations sometimes used under modulars.

Mobile homes, on the other hand, are built to standards which in most cases were established by the industry itself. Their rate of depreciation is proof of the level of these standards.

But just like the mobile, the modular can be built in a factory

In fact, many mobile manufacturers produce both modulars and mobiles in the same plant—sometimes on the same assembly line. So the modular can benefit equally well from the advantages—present and future—of assembly-line production.

It's true that an efficient stick-built operation can still produce houses just as cheaply as most factory operations. But it's much more efficient to build houses for many sites in a central factory than to set up individual stick-built operations on each building site. And it's pretty generally agreed that within a couple of years, the combination of skilled construction-labor shortage and the resultant high cost of that labor will make factory operations definitely advantageous.

And the modular is just as mobile as the mobile home

It may, in fact, be even more mobile. The wheels on a mobile serve chiefly as 1) a delivery device from the plant to the park from which the unit probably will never move and 2) a legal device which allows the mobile to circumvent building codes. Few mobiles leave their initial site until they are to be junked.

The modular can also be on its own wheels (a cheaper method than flat-bed trailer). Once it is put on its own foundation, the wheels and undercarriage are either removed, or, in some cases, left in place as part of a permanent foundation.

This does not mean that the modular is permanently anchored to its site. Should the owner decide to trade it in for a new model, or perhaps move it to the mountains as a vacation house, the undercarriage can be either resuscitated or slipped back into place and away the house goes. It should, in fact, be far more amenable to such moves than is the mobile; since it is built to more rigorous specifications, it should retain its structural vigor for a far longer period.

So physically at least,
the modular house seems to have
all of the mobile's virtues
and
none of its deficiencies.

Now, what about cost?

This has to remain a somewhat iffy question because first of all the modular market is still very new and, second, it's possible that under the pressure of competition, mobile manufacturers might be persuaded to drop their prices somewhat. But for the moment, the price difference between the mobile and the modular is very small—remarkably small when you consider the difference in specifications.

Take, for example, the typical 12' x 60' mobile HOUSE & HOME's corps of shoppers priced out: its 684 sq. ft. (you have to extract about 36 sq. ft. because the towing gear is figured in as part of the 60 ft. length) carried a price tag of roughly $7,500, so the unit price works out to about $11.00 a sq. ft.

Or take the typical double-wide mobile, which is steadily growing in popularity. A bottom-of-the-line model can sell for as low as $10 per sq. ft., or even a hair less. But a top-of-the-line model can sell for more than $13 per sq. ft.

In both cases, the unadvertised "extras" noted on p. 64 can boost the sales price by as much as $1,000, which in turn raises the cost per sq. ft. by as much as $1.

Now, what about the modular?

The modular should sell for little more than a good-quality mobile

Typically, those modulars produced by mobile-home manufacturers will cost between $11 and $12 per sq. ft. The quality of these units will vary according to the manufacturer and the model line, but a homebuilder, comparing them to conventional housing, would judge few of them any higher than middle-of-the-line, and some of them considerably lower.

A better example is the modular line now being produced by Levitt Mobile Systems, Inc., a joint venture of Levitt & Sons (H&H, Feb.) and Environmental Systems Industries (H&H, June '70). These are legally mobile-modulars, since they carry a motor-vehicle inspection tag rather than a building-code approval tag. But in fact, structure, and price, they are modulars. They are priced at about $13.50 per sq. ft., including most of the same decorating and appliances as a comparable sized top-of-the-line mobile.

So it works out this way: today's buyer pays anywhere from $9 to $12 per sq. ft. for a run-of-the-mill mobile, and more than $13 per sq. ft. for a top-of-the-line, double-wide mobile. By contrast, he must pay from $11 to $12 per sq. ft. for a run-of-the-mill modular (most of them are double wide), and as much as $13.50 per sq. ft. for a top-of-the-line modular (also double wide).

Not very much difference.

But that's not the whole story. Not by a long shot...

The modular is a real house. Put it on it's own lot and it qualifies for a mortgage. And then everything changes

It commands favorable financing

Today's conventional mortgage rates of 8% to 8½%—and FHA's 7%—are far below the 11%-12% (and sometimes even higher) installment loan rates that mobile-home buyers must pay.

Further, the 20-to-30-year terms available both on conventional and FHA/VA mortgages are much kinder than the 7-to-10-year terms given the mobile purchaser.

The upshot: a family that mortgages a modular and puts it on its own land pays far less per month for shelter than does the mobile-home family under comparable circumstances—even when the cost of the modular's site is included.

Here is a hypothetical but entirely realistic case history of the costs incurred by a modular-buying family.

Assume the family bought a modular house the same size as did the mobile-owning family (see p. 65), and selling for $13.50 a sq. ft.

Purchase price		$9,700
Land		3,000
Downpayment (20%)	$2,540	
Closing costs and extras	600	
Total cash outlay	$3,140	
Monthly payments on a conventional 20-year 8% mortgage of $10,000	$83.70	
Monthly payments on real-estate taxes	25.00	
Total monthly payment	$108.70	

Had the family chosen an FHA mortgage, the downpayment would have been less and the monthly payments would have been slightly higher. Specifically:

Purchase price		$9,700
Land		3,000
Downpayment (3% FHA)	$380	
Closing costs and extras	600	
Points	160	
Total cash outlay	$1,140	
Monthly payments on an FHA 20-year 7% mortgage for $12,320	$97	
Monthly payments on real-estate taxes	25	
Total monthly payments	$122	

And the modular family gets an additional benefit over the mobile folks: it can deduct the real-estate tax on its federal income-tax return.

It can appreciate—not depreciate

The modular can go up in value for the same reason any other house down the street does: the land under it appreciates, usually faster than the house itself depreciates. (Since modulars are built to the same specs and codes as the conventional house, they should depreciate no faster than the conventional house.)

Bankers realize that. If they didn't, they wouldn't make mortgages on modulars. Instead, they would opt for the installment loan.

To continue the cost computations: let's say, conservatively, that the modular does not appreciate. Assume that when a family sells, it gets back what it paid for the house.

Obviously, then, since there is no decline in value, there is no need to add pro-rated depreciation to the monthly costs as in the case of the mobile.

Rather, those payments spelled out in the previous section remain as they were: $108.70 for a conventional mortgage; $122, FHA.

What it all adds up to is a much cheaper home for the buyer

The modular's advantages add up to a big opportunity for the developer

He has a number of big potential markets

To begin with, there are the 400,000 or so families buying new mobiles every year. Those putting their mobiles on pads in mobile parks are certainly candidates to buy their own modular on their own lot in a modular development. Those putting modules on odd lots are equally good candidates, as long as they own the land and can thus qualify for a mortgage.

Then there are the buyers who now buy used mobiles. (Their numbers are unknown. But it's reasonable to assume there are as many as there are new-mobile buyers.) For the same amount or less than they would pay for a used late-model mobile, they could move into a new modular.

Then there is the uncounted market that needs housing of the type and size provided by mobiles but can't afford the high downpayment and monthly payments.

Finally, there is the uncounted market that needs—and can afford—housing of the type and size provided by mobiles but simply doesn't want to live in them.

You can't hang a figure on these potential markets. But common sense says that as a group they are much, much bigger than the present mobile market.

He has a big competitive edge over the mobile-home dealer

First and foremost, the developer can sell much lower monthly payments and, very likely, much lower downpayments. And they, rather than the actual price of the unit, are the economic keys to sales.

Second, the developer can sell a real house on a real piece of land. Even though the rental apartment has become an accepted way of life for millions of Americans, every survey ever made on the subject shows that home ownership remains a goal for most families. And regardless of its recent meteoric rise in popularity, the mobile home is not universally accepted as a real home.

Third, the developer can sell an investment. Home-owners and potential home-owners have come to accept the home as, at least, a hedge against inflation and, at best, a property that will appreciate faster than the economy as a whole. There's no reason why the modular, built in a good development, can't fill this bill. By contrast, the mobile itself depreciates. And the land under it, the real key to any home's appreciation, is only rented.

And he can have the advantage of fast delivery

Like the mobile-home dealer, the developer can provide a reasonably broad choice of models from stock and then move the family in swiftly on a pad (or lot) of their choice.

In sales terms, such speed means a prospect needn't be lost because he won't wait for the two or three months (at least) it takes to build a conventional house. In economic terms, such speed means the developer turns over his lots more quickly, and has little need for construction money.

. . . So there's an enormous market just waiting. But that raises a question:

If the market is so big, what's keeping builders out of it?

The most obvious obstacle is the lack of manufacturing facilities

Even though roughly 200 companies now produce some sort of modular housing, few of them are engaged in the kind of volume production necessary for a market of the size we've been talking about. Further, most of the big modular manufacturers are making multifamily rather than single-family units. The biggest current producer of single-family modules is almost certainly the mobile-home industry itself, which last year turned out an estimated 8,000 to 10,000 sectionals (which are nothing more than double-wide mobiles). The bulk of these probably ended up on odd lots in rural areas.

The problem of adequate modular production will not be solved easily. Plants aren't built and put into operation overnight, and no builder in his right mind would put one up without knowing either that he himself could market its production or that he had enough other builder/buyers signed up to do the same.

In all probability, the immediate slack would have to be taken up by mobile manufacturers who would supply units to modular-project developers. And if homebuilding doesn't move fast enough or far enough, mobile manufacturers could take over almost all of the modular business, leaving only land development and marketing to the builders.

What's more, homebuilding looks down on anything that smacks of mobiles

This attitude stems from the days when the trailer park was usually a semi-slum on the worst side of town. The people to whom the homebuilder sold his houses regarded these parks with contempt; hence, the builder did too. By and large, he still does. But times have changed:

The trailer has become the mobile home —bigger and more glamorous, even though its longevity still leaves much to be desired, as was noted earlier.

Trailer parks have become mobile home parks—on the average, very much better than the old parks and, in a few instances, on a par with good house subdivisions.

And the market has blossomed. If anything can change the traditional attitude towards mobiles, that's it.

But the big reason is inherent resistance to anything new

It's easy to understand builders' reluctance to make major changes. Despite its high potential rewards, homebuilding remains a risky business—one seemingly small marketing mistake could wipe out a builder. So in his view it makes sense to stay as close as possible to the known and the proven.

Nor is the builder the only one reluctant to change. Lenders are traditionally conservative when it comes to new ideas. And the communities in which the new ideas will eventually appear are well known for their almost automatic resistance to change.

Such conservatism on the part of the lender or the community could thwart the builder.

What then are the chances for the modular's acceptance? Pretty good.

From the marketing standpoint, modulars would be manufactured in the same sizes as the already popular mobiles—at lower monthly costs to the buyer.

From the community's standpoint, it's reasonable to expect that a community would be happier with a subdivision of real houses than with a mobile park and that it would grant the former at least equally high density.

From the lender's standpoint, bankers have given every indication that modulars are in the mortgage league along with conventional houses.

Any new housing market is a risk. But this one looks like a small risk with a promise of big rewards.

When and if homebuilders do move into this modular market, it's all-important that they do a first-class job

Construction must be good

If the key to the potential success of the modular in the mobile market is its status as a real house, the converse is true: the biggest potential hazard to that success could be any intimation that the modular is, after all, nothing but a glorified mobile.

Thus, innocuous slips in construction quality that might pass unnoticed in a conventional house could damage the modular's image in the consumer's eyes—even though such slips posed no long-term structural problems at all.

There are other considerations, too.

The builder's modulars will be in competition with the modulars manufactured very effeciently by mobile-home companies. To hold his competitive edge, the builder must perforce produce a well-constructed unit. In turn, the mobile home manufacturers may be pressured into upgrading the quality of their modulars, ultimately benefiting the entire market.

Design must be good

Good design will help the modular manufacturer combat the image of the mobile home, and give him those competitive advantages that come from looking as little like the mobile and as much like a conventional house as possible.

Such a design goal should not be particularly difficult to meet, chiefly because few mobiles look very much like houses. (Their aluminum skin, however disguised, usually marks them instantly, and the attempts by some companies to tack on house-like features usually make them look even less like houses.) On the other hand, neither the modulars produced by mobile companies nor those of modular-only companies have shown much promise of fresh design. The majority, in fact, look like little more than glorified boxes.

That better design is not only possible but already extant is shown by such modulars as those being produced by Environmental Systems Industries (H&H, June '70) and Kaiser Aetna (H&H, Feb.).

Environment must be good

If the popular image of the mobile home is not particularly good, that of the mobile home park is far worse. And to at least some degree, it's an earned image. Despite a few farseeing mobile-home park developers around the country who strive to make their parks attractive, the typical park today is a sea of jammed-in mobiles with little or no attempt to create a pleasant environment.

The builder, with his experience in land development, can and must do a much better job in his modular project. There's no question that detached-house projects can have six, seven, and even eight units to the acre and still be reasonabley attractive and livable. California builders do it every day with full-sized houses.

And marketing must be good

Drop in at a park to buy a mobile and you may think you've wandered onto a used-car lot. Many mobile-home dealers surround their operations with the high-pressure tactics that have earned used-car salesmen their dubious reputation.

Certainly, not all mobile dealers sell that way—particularly at the new and better parks. But the general level of selling is still low—so low, in fact, that it offers the modular builder a marketing opportunity: by using just the opposite sales tactics, he can enhance his reputation and gain an edge over the mobile-home dealer.

—MAXWELL C. HUNTOON JR.
JOHN KIRK