TESTIMONY

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BEFORE THE APPROPRIATIONS SUBCOMMITTEE ON TRANSPORTATION, HOUSING, AND URBAN DEVELOPMENT AND RELATED AGENCIES

UNITED STATES HOUSE OF REPRESENTATIVES

MAY 26, 2022

Good afternoon, Chairman Price, Ranking Member Diaz-Balart, and distinguished members of the Subcommittee, thank you for the opportunity to discuss the vital role of manufactured homes as a source of long-term affordable housing, and the urgent need for critical health and safety infrastructure resources to preserve them. In addition, we urge Congress to level the playing field and provide financing for resident owned communities' (ROCs) purchases of Manufactured Home Communities (MHCs), enable access to affordable mortgages for manufactured homes and enable ROCs to be eligible for existing federal housing, capacity building and technical assistance resources.

The History of Manufactured Home Communities (MHCs)

MHCs represent an unsubsidized source of safe, decent and naturally occurring affordable housing for 3.5 million Americans. MHCs, often called "mobile home parks", make homeownership a possibility for lower-income families and seniors living on a fixed income. But these very homes and lower-income owners are at risk from an avoidable structural weakness in the market.

Sixty to seventy-five years ago, MHCs were built as temporary housing, with a landlord/tenant relationship in mind. Since the mid-1970s, and the advent of the HUD-code, a national building standard for manufactured homes, MHCs have become established neighborhoods of homeowners. In urban and suburban areas, MHCs are often the last bastion of affordable homeownership for working families. In rural areas, MHCs are often the only affordable housing available – owned or rented. Many homeowners have lived in the same community for generations, chose a home and a neighborhood they could afford, and passed it down to other family members. Others have downsized in order to "age in place" on a fixed income in a smaller, more affordable home.

MHCs are an essential source of unsubsidized affordable housing. Today, there are 38,000 MHCs that are home to 3.5 million homeowners (and some renters) in 49 states (there are none in Hawaii). More than 75% of owners of MH are low-income.

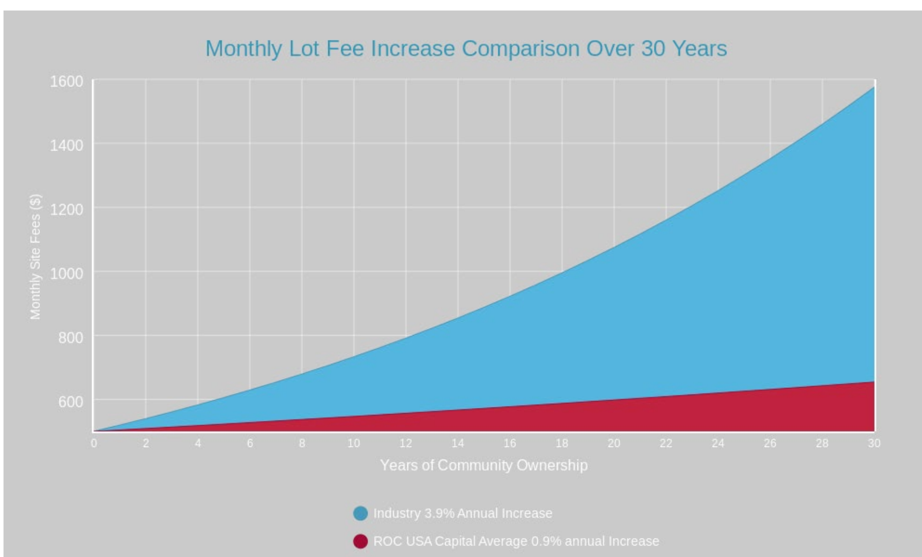
Homeowners living in MHCs have an investment in their home, like any other homeowner, and the land rent they pay to the landowner covers community operating expenses, including property taxes, insurance, and management. It should also cover capital and necessary infrastructure improvements.

"What I really love is that we can now make decisions as a group. We can govern the kinds of things that someone else has governed all our lives. We can actually set our own lot rents, manage our own budgets and do our own infrastructure."

Sue Patneaude, Brunswick Bay Cooperative, Brunswick, Maine

Traditionally, local community owners operated these communities as small businesses, often living in or near the property and seeing the homeowners as customers, and in some cases, as neighbors. In addition to covering expenses and capital upkeep, land rent also produces income for the landowner.

Commercial MHC owners raise land fees on average 3.9 percent a year. Across the portfolio of resident owned communities that ROC USA Capital finances, that increase is far lower – just 0.9 percent. Removing the profit margin from land rent creates stability that is a major benefit for ROC Members. So rent in an investor-owned community with $500 monthly fees jumps to $888 after 15 years. In a resident owned community, that increase tops out at $572. That's a 15-year savings of **$23,355** for the homeowner in a ROC. [1]



[1] *Annual Rate for ROCs (0.9%) based on average performance of all co-ops in ROC USA® Capital's portfolio. Annual Rate for commercially owned communities (3.9%) reported by MH Insider, July/August 2019.*

The Structural Weakness in Today's Model – Investor Owners vs. Resident Ownership

Today's model is different. In the past decade, as income inequality has risen, sophisticated investors have turned to mobile-home parks as a growing market. They see the parks as reliable sources of passive income—assets that generate steady returns and require little effort to maintain. Several of the world's largest investment-services firms, such as the Blackstone Group, Apollo Global Management, and Stockbridge Capital Group, or the funds that they manage, have spent billions of dollars to buy mobile-home communities from independent owners. In 2013, the Carlyle Group, a private-equity firm that's now worth two hundred and forty-six billion dollars, began buying mobile-home parks, first in Florida and later in California, focusing on areas where technology companies had pushed up the cost of living. [2]

The ***structural weakness*** in today's model is that homeowners have no control over what proportion of their land rent is used to maintain the land and infrastructure they rely on, and how much goes to landowner income. There are few consumer/homeowner protections in place and these properties are seen as "income-generating cash cows" that are highly valued by investors. Institutional investors accounted for 17 percent of the $4 billion in sector transactions in 2018, up from just 9 percent of the $1.2 billion in transactions in 2013.[3] The homeowners have no control over how much their land rent will increase and how quickly it will escalate. They can be charged unexpected and excessive fees or forced out entirely because the investor has decided to change the land use and evict them and their homes from the land. Most homeowners are unable to pay the thousands of dollars it takes to move their home or find a new land site to rent for their home.

This ***structural weakness*** doesn't end with land rents, it carries over to each homeowner's home. When the home is in a land-lease community, it is not eligible for standard mortgage financing. Instead, homeowners must acquire "chattel financing". A chattel mortgage is a loan for a manufactured home or other movable piece of personal property. The "movable property", called "chattel," also acts as collateral for the loan. If a homeowner defaults on their chattel mortgage, the lender can take possession of the property being financed and sell it to pay off the loan. Chattel lending is significantly more expensive, less available, and often inaccessible to lower-income borrowers, making it difficult to sell a home for what it is worth. Every time area home values appreciate; the landowner can capture that value by raising rents. These two market factors handcuff the lowest-income homeowners from realizing the full value of their home.

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[2] The New Yorker, March 8, 2021

https://www.newyorker.com/magazine/2021/03/15/what-happens-when-investment-firms-acquire-trailer-parks

[3] Financial Times, Feb. 7, 2020
https://www.ft.com/content/3c87eb24-47a8-11ea-aee2-9ddbdc86190d

Resident Owned Communities (Manufactured Home Cooperatives)
In an expanding number of MHCs, in 20 states at present, homeowners are forming limited equity co-ops and acquiring the MHC to preserve and improve the community through self-help and community engagement. Public investment in these rural and suburban Resident Owned Communities ("ROCs") are protected long-term and will benefit current and future residents since the MHC will never again be sold to private investors. ROC USA provides technical assistance to nearly 300 ROCs holding 20,830 homes or approximately 55,000 residents.

Let me tell you a little bit about the families who call ROCs their home:

- 81.7% are below 80% AMI
- 56.4% are below 50% AMI
- Nearly 30 % are extremely low income (30 % or below AMI)
- Approximately 25% are seniors.

Resident owned communities, or "ROCs," align ownership of the home and the land. ROC homeowners continue to own their own homes individually and own an equal share of the cooperative that owns the land. Each ROC Member has a proprietary lease to occupy their lot in perpetuity and a say in the way the community is managed, as major decisions are made by democratic vote. ROCs are professionally managed, usually by local property management companies and an elected Board of Directors oversees third-party vendors for snow-plowing, trash removal, and maintenance.

"You're going to be able to control where that money is spent, what you want to improve, what your place is going to look like, what it'll cost you to live there. You can't ask for any more being a so-called renter because you're not. Now you're part of it."
Jim Borek, Stonegate Cooperative, Lindstrom, Minn.

Critical Challenges Facing These MHCs and Proposed Solutions

1. **Failing Infrastructure is Putting Health and Welfare of Residents at Risk:**

Since MHCs were historically financed as privately owned developments and viewed as temporary housing, many MHCs have failing infrastructure that is putting the health and safety of low-income homeowners at risk. Many MHCs are in desperate need of water, sewer, electric, drainage, and road upgrades along with weatherization, energy efficiency improvements (including street lighting and solar arrays) and storm and emergency shelters that double as remote learning sites and community centers. Funding for these community-identified health, safety or energy efficiency improvements will go a long way to make these low-wealth MHCs even more resilient.

As part of the FY 2023 HUD appropriation, Congress should fund a set-aside within the Community Development Block Grant (CDBG) Program of $500,000,000 to create a federal manufactured housing infrastructure improvement grant program that would fund critically needed and shovel-ready infrastructure projects in MHCs.

Limited-equity cooperatives Investments will be made in projects that meet the IRS Affordable Housing Safe Harbor and that can demonstrate a mechanism that ensures the MHC is preserved as long-term affordable housing, for example a limited equity cooperative type resident owned community. Timely availability of funds is critical to the use of funds in conjunction with privately and publicly financed acquisitions by eligible organizations.

Grants will be scored and prioritized based on the merits of the proposed improvement plans and preference will be given to applicants who are serving low-income homeowners in rural and suburban communities.

These funds will bring long-term sustainability, energy efficiency, water conservation and safer communities that generate a return on investment through increased tax revenue, improved housing affordability, and better health and economic growth. Repair and replacement priorities include:

- Water source and distribution systems (including connecting to public water or new wells, pump stations and storage facilities);
- Septic and sewer wastewater systems;
- Electric infrastructure including meter panels and poles for service to homes and community facilities;
- Roadways within the community, on- and off-site stormwater drainage and driveways;
- Tree trimming and removal as necessary to install new systems and protect homes and facilities;
- Emergency storm shelters that can also serve as community centers;
- Energy efficiency projects including solar, wind and street light conversions.
- Sidewalks within the community;
- Removal of abandoned and blighted homes from the property;
- Home-site improvements including installing HUD-approved foundations for new and pre-owned HUD-code homes; and
- Flood risk mitigation projects.

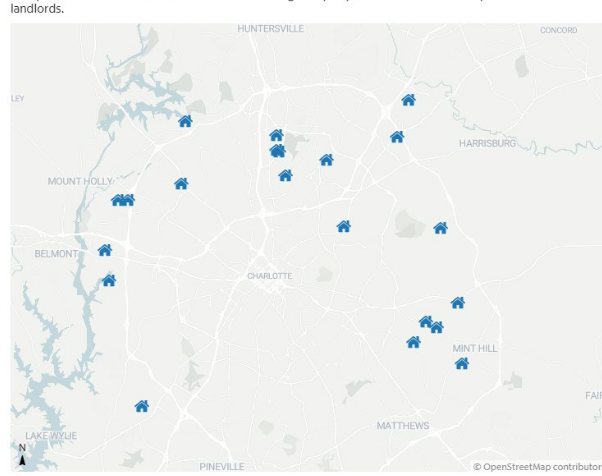
2. Publicly funded low-cost acquisition capital should not be just for investors

Hard-working Americans who own their homes shouldn't have to face the threat of being homeless due to massive land rent increases that are out of their control. At least 20 mobile home parks in Mecklenburg County (North Carolina) have sold since 2017 — many to large-scale landlords who raise rents, threatening the stability of longtime residents.[4]

This trend is happening all across the country, private equity firms are buying parks from mom-and-pop owners and raising rents and fees. In most places, this has led residents to pony up or move.[5] The problem is not

MECKLENBURG MOBILE HOME PARK SALES SINCE 2017

Some one-third of mobile home parks have changed hands in the last five years. Corporate investors and rising land prices threaten this source of affordable housing. Many buyers are out-of-state companies and investor landlords.



Map: Lauren Lindstrom • Source: Mecklenburg County property records, GIS data

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[4] Charlotte Observer, May 15, 2022

https://www.charlotteobserver.com/news/business/development/article261342067.html

[5] The Fight to Keep Their "Poor People's Paradise" out of Private Equity's Hands

Mother Jones, May/June 2022 issue

insignificant. Nearly three million of these homeowners live throughout the U.S. To be fair, many private owners of manufactured home communities serve their residents well. However, the private industry has attracted some aggressive investors whose business model is designed to maximize profits, knowing full well the immobility of their residents' homes and the vulnerability of owning a home on rented land.

The New York Times wrote in March: *"Across the country, manufactured-housing park residents are finding their homes at the center of a bull's-eye, as a deluge of investment companies expand their mobile-home park portfolios at a breakneck pace, threatening the stability of one of the nation's few remaining sources of affordable housing."* As one investor's report on the company put it: The senior management team has a demonstrated track record of increasing home rental rates. ***It has received $1.3 billion in financing through government-sponsored lender Fannie Mae, which says mobile homes are "inherently affordable."*** The money helped them buy existing mobile-home parks.[6]

"*ROCs are one of the few sources of unsubsidized naturally occurring affordable housing in the country not subject to market-based rent increases*."
2019, Freddie Mac, Spotlight on Underserved Markets

MHCs need access to flexible and accessible FHA, GSE or CDFI financing so that they are ready when an opportunity to purchase their community becomes available if a private owner decides to sell.

Any taxpayer funding or financing that supports commercially owned MHCs, including GSE and FHA financing should include a requirement of long-term lease provisions and the opportunity for residents to purchase when the property is sold, preserving the public investment and creating permanent long-term affordability.

3. **Leveling the Playing Field-Make ROCs Explicitly Eligible for Federal Resources**

- ***In the FY 2023 HUD Appropriations Bill,*** *explicitly make ROCs and Manufactured Home Co-ops eligible for federal emergency/disaster, infrastructure, housing, capacity building and technical assistance funds.*

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https://www.motherjones.com/politics/2022/05/private-equity-sans-souci-colorado-mobile-homes/

[6] The Washington Post, Feb. 14, 2019

https://www.washingtonpost.com/business/economy/a-billion-dollar-empire-made-of-mobile-homes/2019/02/14/ac687342-2b0b-11e9-b2fc-721718903bfc_story.html

- ***Fund the Housing Investment Fund*** with $750 million under the Capital Magnet Fund at CDFI as was proposed in the Build Back Better legislation. CDFI Fund's Capital Magnet Fund, on which the Housing Investment Fund is modelled, utilizes the ability of CDFIs to leverage private sector capital with public resources through experienced, specialized lenders. The legislation specifically cites ROCs as an eligible use. These equity grant funds can be used to finance both resident purchases and community improvements. Resident owned communities were specifically called out in the new Housing Investment Fund and we urge Congress to pass this or a similar measure at HUD.

- ***Create a manufactured home community Capital Gains Tax Credit to incentivize selling to homeowners and maintain long-term affordability.*** Amend the tax code to create an incentive for property owners to sell to resident-owners/co-ops.

ROC USA®

ROC USA® works with homeowners who want ownership of the land. The organization's vision is a country in which the owners of efficient and affordable homes are economically secure in healthy and socially vibrant resident owned communities.

Today ROC USA and its affiliated nonprofits support 294 resident owned communities. In 2019, 25 such ROCs bought their communities with ROC USA's support. Today, co-ops have 10 MHCs under contract and 40 more in negotiation. They range in size from 4 homes to 430 homes, with an average of 68 homes per neighborhood.

ROC USA and its technical assistance provider affiliates have been creating and supporting ROCs in 20 states for close to 40 years. Their track record is unparalleled. Not one of these communities has ever declared bankruptcy or sold back to commercial investors. Now, ROC USA has launched a program called ROC USA Direct to work nationwide.

ROC USA also operates a national Community Development Financial Institution – ROC USA® Capital – that has loaned more than $300 million in secured community financing since 2008.

The purchase of the community represents the transfer of a multi-million-dollar commercial real estate asset into the hands of a corporation owned by low- and very-low-income community residents. On average, about half of all households in ROCs are below 50% AMI and two-thirds are below 80% AMI.

ROCs are naturally occurring diverse communities. They reflect lower-income neighborhoods everywhere, housing higher numbers of older single women, people with disabilities, veterans, and, depending on location, people of color.

Land and homeownership are central parts of the long struggle for racial justice in this country and around the globe. ROC USA stands firmly for the importance of expanding ownership opportunities because housing security and wealth-building are essential solutions to broader and deeper problems.

A substantial part of what ROC USA does is grassroots adult education and training. The 38-year success of these communities is, in large part, due to the determination of these community leaders to govern their cooperative corporations, operate their businesses, and lead their neighbors in community revitalization and harmony. ROC USA stands shoulder to shoulder long-term with the ROCs in its network.

"I don't think there's one person who wouldn't do it over again. For one thing, we saved a lot of people so they kept their homes. The alternative for many people was to lose them."

Dorothy Sheppard, Hidden Village, Olympia Washington