

In the Zone

HOW MANUFACTURED HOUSING
CAN HELP CLOSE THE SUPPLY GAP
BY THE SINGLE-FAMILY TEAM,
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How Manufactured Housing Can Help Close the Supply Gap

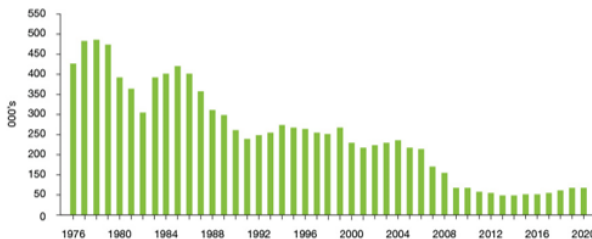
Manufactured homes meet high standards for quality and energy efficiency, and they can look similar to site-built homes but can be constructed faster. They are also considerably more affordable on average than site-built homes, costing about \$59 versus \$122 per square foot (excluding the land on which the home sits, in both cases). So why, with a critical shortage of housing and rapidly rising home prices, do manufactured homes make up only around 7.5% of today's existing U.S. homes and 9% of new homes, according to the U.S. Census Bureau?

Zoning regulations in many states and localities are a primary reason.

Demand for housing that's affordable far outpaces availability.

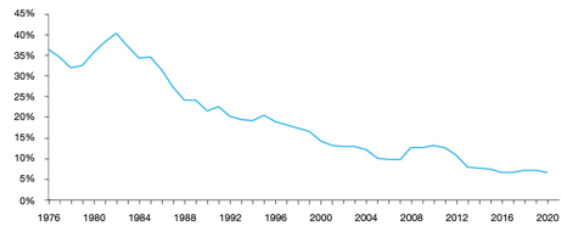
The gap between the U.S. supply of homes and the number needed to meet long-term demand has spread to an estimated 3.8 million units, largely because production of new homes has slowed significantly since the mid-2000s.ⁱ Construction of entry-level homes is at a 50-year low, as shown in the following graphs, falling from 418,000 units annually in the late 1970s to 65,000 in 2020 – an 84% drop. These shortfalls became more visible and pressing with the COVID-19 pandemic. Meanwhile, with changing demographics, demand is on the rise: Millennials are hitting prime homebuying age, a growing number of Baby Boomers are downsizing, and Generation Xers are split across both sides of the market.

Number of New Homes Built
with Less than 1,400 Square Feet



Source: U.S. Census Bureau.

Percentage of New Homes
with Less than 1,400 Square Feet



Source: U.S. Census Bureau.

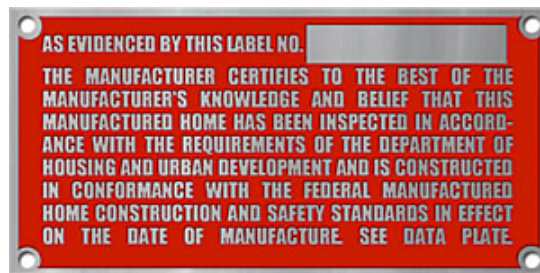
As a result, sales prices have been rising for the last decade. According to the October 2021 Federal Housing Finance Agency House Price Index (FHFA HPI®), U.S. home prices jumped 18.5% from August 2020 to August 2021 alone.ⁱⁱ In areas where most residents are people of color, prices have risen faster than the metropolitan-area averages for several years.ⁱⁱⁱ

Manufactured housing is the largest source of unsubsidized affordable homes nationwide. However, [persistent misconceptions](#) about manufactured homes prevent many people from considering buying and living in them. Many state and local governments have instituted zoning regulations and other ordinances that limit where these homes may be placed, largely because of those views – and thereby reinforcing them.

Manufactured home, modular home, mobile home. What's the difference?

Although the terms often are used interchangeably, they have different meanings. All three types of homes are built in factories but to differing standards, or codes. Which code the home meets can affect where the home may be placed, available financing options, how it is taxed, and more.

Manufactured homes are built in compliance with the U.S. Department of Housing and Urban Development's (HUD's) Manufactured Housing Construction and Safety Standards, commonly known as the HUD Code. HUD's authority is based in the Manufactured Housing Construction and Safety Standards Act of 1974 and subsequent legislation.^{iv} You know a home has been built to the HUD Code by the certification label (shown below) and data plate that it must display.



Modular homes are built on either a permanent or a removable chassis to state, local, or regional codes. Production of mobile homes stopped when the HUD Code went into effect. They were not built to a uniform code.

Why is the HUD Code important?

The HUD Code sets national building standards for manufactured homes, whereas codes for site-built homes are set at the state and local levels. The HUD Code's purpose:

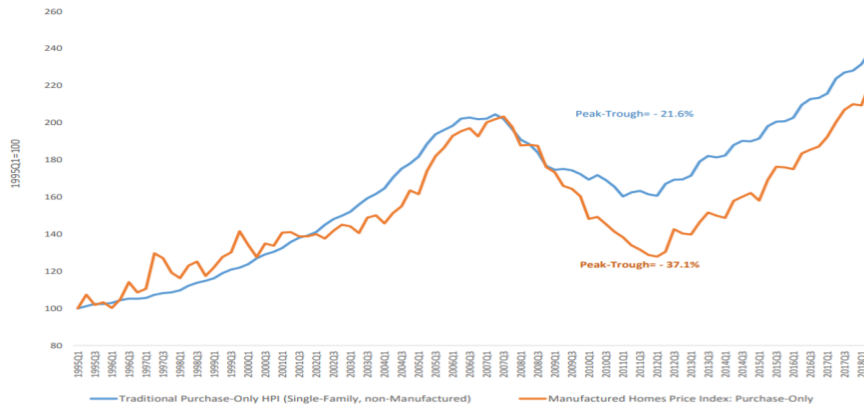
- To "protect the quality, durability, safety, and affordability" of manufactured homes nationwide
- To increase affordable housing supply and homeownership opportunities
- To promote innovative and cost-effective construction techniques

Separating fact from fiction about manufactured homes.

Say "manufactured home" during a game of word association and responses might include "bad investment," "poor credit risk," "flimsy" – reflecting persistent misconceptions. Rather, manufactured homes can look much like site-built homes and offer safe, attractive, affordable housing, and homeownership opportunities; they also are energy efficient and stand up well to weather, fire, and other natural events.^v Off-site construction is faster, more precise, and more efficient than on-site construction, making more manufactured homes available more quickly and at lower cost.^{vi}

In addition, manufactured homes can appreciate in value, at a rate nearly on par with site-built homes.^{vii} FHFA produced a special index on manufactured homes as part of its second quarter 2018 HPI. Although the data did not allow for an exact comparison, FHFA found that prices for manufactured homes titled as real property rose 120% from first quarter 1995 through second quarter 2018 versus 140% for traditional site-built homes; however, manufactured home prices had a steeper climb following the Great Recession. On average, site-built homes appreciated only 0.4% faster annually than manufactured homes.^{viii}

Home Price Index for Traditional and Manufactured Homes Quarter 1 1995 through Quarter 2 2018



Source: FHFA HPI Q2 2018

How does zoning affect manufactured homes and housing affordability?

State and local governments have authority over where, when, and how many homes are built as well as what they look like and the infrastructure required to support them. State and local jurisdictions implement zoning regulations for various reasons. Often the rules effectively bar manufactured homes from certain areas – or altogether – or make them cost-prohibitive. These include, but are not limited to, lot-size and parking-space minimums, architectural design standards, requirements around building materials, and onerous approval processes, permitting, and fees.

Such regulations can have a range of implications. For example, lot-size minimums can drive up land prices which can make properties unaffordable and deter the placement of new homes. According to a 2019 report on land-use practices, 94 percent of more than 2,400 communities surveyed set lot-size minimums.^{ix} Parking-space minimums is another way of setting lot-size minimums and limiting the number of homes in a community. Standards around design features and building materials can also make manufactured homes ineligible for placement. Fees and administrative processes can increase developers’ time to market, costs, and risk, which can lead them to decide against using manufactured homes in their projects.

Overall, constraining or eliminating manufactured housing in these and other ways limits housing options for many households and contributes to the widening affordability gap. A lack of affordability also can curtail potential economic prosperity in areas with restrictions.^x High housing prices or the lack of available housing can affect employment, businesses’ productivity, and quality of life for people who either are housing-cost burdened (spend more than 30% of income on housing) or must commute long distances.

HUD’s Office of Policy Development and Research (PD&R) and many other industry participants, think tanks, and research institutions have published works on this subject that highlight the issues and their impacts. To access a small selection of them, go to the “Find out more” section of this document and the endnotes.

Focus on the gap in affordable and equitable housing brings manufactured homes into the spotlight.

A growing chorus is calling more attention to manufactured housing and the positive difference it can make for people and communities nationwide, while recognizing that a lot of work needs to be done to

create an environment for growth. The federal government has become more vocal about promoting manufactured housing recently. Some state and local governments across the country are also starting to think and act differently about manufactured housing in their communities.

The heightened energy at the federal level began with establishing the Duty to Serve Program in the Housing and Economic Recovery Act of 2008; the GSEs began to execute the first Duty to Serve Underserved Markets plans in 2018.

Momentum has increased since then.

A 2020 [White House statement](#) asserted, “But for too many, the American Dream remains out of reach. Entrenched disparities in our laws and public policies, and in our public and private institutions, have often denied that equal opportunity to individuals and communities” and that the Administration will work to identify and help lower barriers.

Congress has been voicing support, too. For example, during committee hearings, members of the House and Senate have expressed bipartisan agreement that zoning restrictions push up housing costs and should be eased. Also, the [Yes in My Backyard Act](#) passed the House and was introduced in the Senate in the spring of 2021 with bipartisan sponsorship to motivate more support at the state and local levels; it includes a range of land-use policies and requirements aimed at creating accountability for progress.^{xi}

Meanwhile, some states and localities have taken steps to promote the acceptance and use of manufactured housing by relaxing or removing restrictions and encouraging inclusion. These localities include state and local jurisdictions in Arizona, Arkansas, California, Kentucky, New York, Washington, and others. Details on some of these are in the resources listed in the “Find out more” section and the endnotes.

Freddie Mac is committed to moving manufactured housing forward.

Freddie Mac was chartered by Congress in 1970 to promote liquidity, stability, and affordability within the U.S. housing market. We do not make mortgage loans directly to borrowers; we buy loans that meet our standards from approved lenders, replenishing the lenders’ funds available to finance mortgages for additional creditworthy borrowers. Freddie Mac has supported manufactured housing for many years. We have ramped up our efforts over the last few years and continue to build on that momentum. As an industry leader, we promote collaboration and innovation to make a difference for today and for the future of affordable housing and homeownership.

On the single-family side of our business, in addition to increasing our manufactured housing loan purchase volume by 85% between 2018 and 2020, we introduced new and enhanced offerings to facilitate financing and increase opportunities for sustainable homeownership. Importantly, we expanded the types and uses of manufactured homes that we finance:

- Single-wide manufactured homes
- Manufactured homes as accessory dwelling units
- CrossMod™ homes, with our CHOICEHome® mortgage offering

Furthermore, our first-of-its-kind research provides insights that industry participants can apply to increase placements of manufactured homes and grow the market. It highlights areas where zoning regulations enable the use of manufactured housing to help narrow the affordability gaps; it also includes data on mortgage-ready consumers in those areas, among other valuable and relevant information.

Freddie Mac is committed to advancing manufactured housing nationwide. Our focus to date on real property does not diminish our commitment to the market overall. We will continue to work with participants across the housing ecosystem to promote manufactured homes as an attractive, affordable, high-quality housing solution.

Visit the Freddie Mac Single-Family [Mortgage Products](#) and [Duty to Serve Manufactured Housing](#) web pages for more information.

Find out more.

A wealth of information is available on manufactured housing and zoning. In addition to those that are accessible via hyperlinks in the body and endnotes of this document, following is a small selection of additional indexes, research, and other insights that often are referenced in the industry.

Index: [U.S. Census Bureau, Manufactured Housing Survey](#)

HUD's Office of Policy Development and Research insights:

- *PD&R Edge*; "[Opportunities to Increase Housing Production and Preservation](#)"; September 7, 2021
- "[Eliminating Regulatory Barriers to Affordable Housing, Section 5: State, Local, and Tribal Opportunities](#)", January 2021
- *Evidence Matters*, [Winter/Spring 2020](#)
- "[Regulatory Barriers to Manufactured Housing Placement in Urban Communities](#)", in collaboration with the Center for Housing Research at the Virginia Polytechnic Institute (Virginia Tech); Casey J. Dawkins, C. Theodore Koebel, Marilyn Cavell, Steve Hullibarger, David B. Hattis, Howard Weissman; January 2011

Industry research:

- "[Building Affordability by Building Affordably: Exploring the Benefits, Barriers, and Breakthroughs Needed to Scale Off-Site Multifamily Construction](#)"; Carol Galante, Sara Draper-Zivetz, and Allie Stein; Terner Center for Housing Innovation, University of California at Berkeley; March 2017 (Note: Most points raised also apply to single-family housing.)
- "[Strategies for Increasing Housing Supply in High-Cost Cities: DC Case Study](#)"; Pamela M. Blumenthal, John R. McGinty, and Rolf Pendall; Urban Institute; August 2016
- "[Zoning Barriers to Manufactured Housing](#)", Daniel R. Mandelker, *The Urban Lawyer*, Spring 2016
- "[How Land-Use Regulation Undermines Affordable Housing](#)", Sanford Ikeda and Emily Hamilton, Mercatus Center at George Mason University, November 2015
- "[Affordable Manufactured Housing Best Practices: Opportunities for California Affordable Housing Developers](#)"; California Coalition for Rural Housing; Dewey Bandy; February 26, 2010

Other insights:

- "[Understanding Today's Manufactured Housing](#)", Manufactured Housing Institute

- WRAL-TV, "[Affordable housing decision often excludes manufactured homes](#)"; September 9, 2021
- Freddie Mac Single-Family; "[Fireside Chat: Manufactured Homes Bolster Affordable Housing Options](#)"; August 19, 2021
- Housing Matters: An Urban Institute Initiative; "[How Manufactured Housing Can Fill Affordable Housing Gaps](#)"; Aaron Shroyer; July 8, 2020
- *Professional Builder*; "[3 Reasons Off-Site Construction Could Help Shape the Future of Housing](#)"; National Association of Home Builders; June 18, 2021
- *The Washington Post*; "[Prefab houses were once the 'holy grail of design.' So why aren't there more of them?](#)"; Michele Lerner; June 20, 2018

ⁱ Freddie Mac Research Note; "[Housing Supply: A Growing Deficit](#)"; May 7, 2021

ⁱⁱ [FHFA House Price Index Monthly Report](#); October 26, 2021

ⁱⁱⁱ Joint Centers for Housing Studies of Harvard University, "[The State of the Nation's Housing 2021](#)"

^{iv} HUD, [Manufactured Home Construction and Safety Program](#)

^v "[Understanding Today's Manufactured Housing](#)", Manufactured Housing Institute

^{vi} Freddie Mac Single-Family, "[Manufactured Home Loan Performance \(For Originations Between 2009 and 2019\)](#)"

^{viii} Urban Institute; "[New evidence shows manufactured homes appreciate as well as site-built homes](#)"; Laurie Goodman, Edward Golding, Bing Bai, and Sarah Stochak; September 13, 2018

^{ix} "[The Local Residential Land Use Regulatory Environment across U.S. Housing Markets: Evidence from a New Wharton Index](#)"; National Bureau of Economic Research, NBER Working Paper Series; Joseph Gyourko, Jonathan Hartley, Jacob Kimmel; December 2019

^x *American Economic Journal: Macroeconomics*, "Housing Constraints and Spatial Misallocation", Chang-Tai Hsieh and Enrico Moretti, April 2019