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Mobile-Home Makers Try To Stitch Together a Rebound

By JAMES R. HAGERTY And SERENA NG

CLARION, Pa.—Builders of manufactured homes—the kind constructed in a factory and often known to the public as mobile homes or trailers—missed out on the great American housing boom. Now some of them hope their industry has finally stopped imploding.

The Manufactured Housing Institute, or MHI, a trade group, earlier this month told its members that shipments in the first seven months of this year were up 6.4% from a year earlier, in part because of stimulus from federal tax credits offered to home buyers earlier this year.

Home Sweet Mobile Home



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1998's total. By contrast, sales of site-built homes didn't start falling until 2006 and last year totaled 375,000, a decline of 71% from a peak in 2005.



That is encouraging news for [Warren Buffett's Berkshire Hathaway Inc.](#), owner of Clayton Homes Inc., by far the largest maker of manufactured housing, as well as a host of smaller rivals.

Lax lending practices in the 1990s—a prelude to what happened in the broader housing market several years later—led to a wave of repossessions of manufactured homes, leaving plenty of cheap used ones available and little demand for new products. Cheap credit for "site-built" homes—those built outdoors—lured people with modest incomes away from trailer parks.

As a result, shipments of manufactured homes in the U.S. began falling in 1999 and last year totaled just 49,789, the lowest since the 1950s and down 87% from

The median price for site-built houses and condos was about \$179,000 in August, according to the National Association of Realtors. Manufactured homes, which usually are sold without land, typically sell in a range of about \$35,000 to \$100,000.



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Cavco, a maker of manufactured homes, is counting on a gradual rise in demand, in part from empty nesters seeking smaller homes. Above, an employee at Cavco's factory in Phoenix inspects a home this month.

"I don't think it gets a lot worse than it is," says Joe Stegmayer, chief executive of Cavco Industries Inc., a maker of manufactured homes, referring to the manufactured-home industry.

Mr. Stegmayer, meanwhile, is counting on a gradual rise in demand from retiring baby boomers and empty nesters seeking smaller houses, as well as first-time home buyers.

When Berkshire Hathaway bought Clayton for \$1.7 billion in 2003, many in the industry thought they were near the bottom of a brutal downturn. But the pain continued.

Clayton has since acquired weaker rivals and become the dominant U.S. maker of manufactured homes, with a market share estimated at 45%. But earnings are down, largely because of a rise in provisions for losses on loans to buyers of the homes. Pretax profit was \$187 million in 2009, down from \$206 million in 2008 and \$526 million in 2007. For this year's first half, Clayton's pretax profit was about level with the year-earlier period, Berkshire Hathaway says.



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The manufactured-home industry plays a significant role in housing but wants to expand its market. Pictured, in September, Cavco Industries houses installed at an adult community in Apache Junction, Ariz.

"I see this as a temporary blip for Buffett," says Paul Howard, an independent analyst in Glastonbury, Conn. "There's value in being the last person standing and being able to survive the downturn." Clayton officials and Mr. Buffett declined to comment.

The manufactured homes industry still plays a big role in housing, especially for low-income people, retirees and those living in rural areas. About 19 million people, or 6% of the U.S. population, live in manufactured homes, the MHI says. The industry employs around 75,000 people and annual sales are running at about \$3.2 billion.

Today's manufactured homes often have sloping roofs and arched doorways, and are far different from the rectangular, flat-roofed shoe boxes of the 1960s. The industry notes that the materials that go into manufactured housing—such as pine studs and gypsum wallboard—are the same as those typically used in site-built homes.

Moreover, those products remain inside the factory during construction and aren't damaged by rain.

At a Champion Home Builders Inc. factory here, about 80 miles northeast of Pittsburgh, workers put together "modules," or box-like sections of homes, complete with flooring, plumbing, electrical wiring and carpet. The makings of an entire home can be completed in six days. Once delivered, the modules can be attached side by side, or stacked on top of each other to make two- or three-story homes.

Unfortunately, "people still think of the old trailer park and the eyesores," says Phyllis Knight, acting CEO of Champion.

Don Glisson, CEO of Triad Financial Services Inc., which finances manufactured-home sales, says the

industry could use an image-building national advertising campaign, but "nobody wants to pony up the money because times are so tough."

A bigger disadvantage may be financing costs. Most manufactured homes are financed with personal-property loans, meaning the loan is secured only by the home and not the land, which is often leased from the operator of a housing community. Rates on such loans, which are considered riskier, are around 7% to 11%, compared with less than 5% for conventional home loans.

Although 2008 housing legislation required government-backed mortgage companies Fannie Mae and Freddie Mac to support financing for manufactured homes, the regulator of Fannie and Freddie, the Federal Housing Finance Agency, recently decided such loans should be funded only when backed by land as well as by homes. Most buyers of manufactured homes either don't own the land or don't want to mortgage it.

Unless the financing disadvantage is eliminated or reduced, "the manufactured-home industry seems destined to struggle and dwindle," Mr. Buffett said in his annual letter to shareholders earlier this year.

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