Testimony No On HB 3007

Chuck Carpenter
Executive Director
Manufactured Housing Communities of Oregon
Salem, Oregon

Good afternoon Madame Chair, members of the committee. My name is Chuck Carpenter, I am the executive director of Manufactured Housing Communities of Oregon which represents over 500 manufactured home communities in Oregon.

We have quite of few experts to testify against HB 3007 today, and since I have met privately with most of you I will be brief.

Manufactured Housing Communities are the single largest private supplier of affordable housing in Oregon. This proposal will do nothing to expand that supply and in fact it will diminish that supply over the long term.

This proposal also does nothing to improve the basic economics of operating a manufactured home community. It does open the door to a wave of public subsidies that currently are not available to privately owned communities.

There is no law against residents purchasing manufactured home communities in Oregon. It is hard to see how a seller would ignore a resident offer if it was genuinely the best offer. Current law provides for tax incentives that are designed to encourage community owners to sell their community to residents and hence waive all Oregon capital gain taxes.

Attached to my testimony is a recent report on Resident Owned Communities in New Hampshire. I will summarize the findings of this study – but I encourage you to take the time to read the highlights. It provides much greater insight to this issue than we can provide in 15 brief minutes.

The report finds that there are few definitive benefits in either the supply of affordable housing or economic and financial benefits to residents when communities become resident owned and publicly subsidized. There may be a psychological benefit – but there is no empirical data.

The reality is that these communities are highly leveraged communities that require massive public subsidies to remain viable. This raises serious questions. Dramatically higher rents – often $100 or more are the first indication of the potential house of cards that these real estate transactions represent.

Resident Owned/Publicly Subsidized communities have access to capital on extremely favorable terms that is not made available to traditional owners of manufactured homes in communities. As advertised by ROC USA and CASA, these terms include financing 100% of the appraised value of communities. The NH Community Loan Fund has advertised mortgage financing for homes in co-ops up to 115% of appraised value.

The report also reveals that 25% of the cooperatives in NH required some for of public subsidy for capital improvements.

These capital improvements (see Table 1 on page 8 OR attached to the back of my testimony) have cost government coffers over $7 million dollars in a short period of time and in a state that is a third the size of Oregon. Communities have struggled with maintaining septic systems, retaining walls, electrical and water systems, and need public assistance largely because they are highly leveraged and need to turn to the state in order to remain viable. Resident owned/publicly subsidized communities have testified before the NH Legislature pleading for more assistance in order to keep their publicly subsidized communities afloat.

Finally, homes do not appreciate faster in resident owned communities. Figure 3 (on page 10) of the report shows that homes appreciated at a faster rate in traditionally owned communities than resident-owned publicly subsidized communities.

In conclusion, the empirical data does not support that residents are better off in resident owned publicly subsidized communities. The massive subsidies given through favorable financing, not-for-profit status, and massive government block grants mask the financial difficulties that these communities face.

The bottom line is that HB 3007 opens the door to a public policy that encourages the most vulnerable citizens to take on more debt though highly leveraged and zero down payment loans. Sound familiar? It should – this exactly the same type of policy that ensnared millions of home owners across the county in the last 8 years resulting in economic ruin for many.

Finally, once these communities convert to publicly subsidized housing the deep pockets for repairs shifts from the private landlord to the Oregon General Fund. That alone should be enough to give you, the policy-makers great pause.

Please vote no on HB 3007

Thank you.

Resident-Owned Co-Ops Often Require Government Subsidies

Well-intentioned policies to support cooperatives often result in highly leveraged cooperative communities that may not be economically viable without substantial subsidies. Manufactured housing communities need periodic infrastructure improvements and investments. Lot rental fees in investor-owned communities must be high enough to build reserves or otherwise cover capital improvements in their communities. Community residents in investor owned parks can recognize the need for improvements but owners of communities are often criticized when lot fees are adjusted to cover these costs. Advocates of cooperatives often criticize owners of manufactured home communities for not making capital improvements and criticizing them for increasing rental fees when they do.

Table 1
Public Grants to Cooperatives in NH

Municipality	Project	Award
Allenstown	Olde Towne Coop - drinking water supply	$196,735
Allenstown	Catamount Hill Coop - drinking water supply	$387,539
Allenstown	Catamount Hill Coop - electrical, water supply, and septic	$500,000
Barrington	Barrington Oaks Coop	$12,000
Charlestown	Blueberry Hill Coop - city water interconnect	$250,000
Claremont	Joint Sullivan/Pleasant Valley Coop	$650,000
Derry	Running Brook Cooperative - Septic	$84,000
Epsom	Family Estates Cooperative Emergency	$77,000
Exeter	Exeter-Hampton Cooperative feasibility study	$12,000
Goffstown	Medvil Cooperative - Septic System	$266,820
Hinsdale	Ash Brook Swamp Coop - Feasibility Study	$12,000
Hudson	Ottarnic Pond Coop Infrastructure Improv.	$358,600
Hudson	Otarnic Pond Cooperative Feasibility Study	$12,000
Keene	Base Hill Coop - Sewer connection	$500,000
Londonderry	Wagon Wheel Coop Infrastructure	$250,000
Milford	East Milford Coop - Retaining Wall	$148,000
Northfield	Soda Brook Coop - Water source protection	$13,700
Northwood	Tower View Cooperative Feasibility Study	$12,000
Ossipee	Sandy Ridge Estates Cooperative Infrastructure	$500,000
Plymouth	Whip-O-Will Co-op Wastewater Study	$12,000
Raymond	Hill Top Cooperative - Feasibility Study	$12,000
Raymond	Lamprey River Coop Water Connection	$418,603
Raymond	Lilac Drive Coop Septic	$140,000
Raymond	Hill Top Cooperative Subsurface Disposal	$176,500
Statewide	NHCLF - energy retrofit in 425 coop homes	$2,000,000
Tamworth	Tamworth Pines Coop - Feasibility Study	$12,000
	Total	$7,013,497

The Impacts of Resident-Owned, Cooperative, Manufactured Housing Communities

Summary

March, 2013

PolEcon Research
51 Atkinson Street
Dover, New Hampshire 03820
603 749-4677

polecon research

Table of Contents

Introduction and Key Issues

Manufactured homes are often clustered into manufactured home communities and in many areas of the country these communities have long faced considerable economic and regulatory impediments that can make expanding the supply of affordable housing more difficult for manufactured homes than for other types of housing. Resident-ownership of manufactured housing communities, or cooperatives ("Co-Ops"), are being promoted across the nation as a strategy for increasing affordable housing and as a way to increase the economic benefits of owning homes in manufactured housing communities.

Advocates of Co-Ops argue that resident-owned cooperative communities are an effective strategy for "preserving and improving affordable housing communities," "building individual assets," and "fostering, healthy, supportive communities,"[1] but there is little evidence to date that suggests there are definitive benefits for the supply of affordable housing or the economic and financial well-being of cooperative owners beyond those that result from traditional, privately-owned communities. PolEcon completed an extensive research project on the impacts of Co-Ops in New Hampshire in 2008.[2] Our research on the cooperative movement in NH used standard tools and methods of economic and housing market analysis and raised serious doubts about the claims of benefits made by advocates. That report correctly pointed to the possible impacts that cooperatives would have on the supply of manufactured housing and raised concerns about the financial viability of highly leveraged cooperatives. We believe those concerns have been validated in the interim. In contrast, as the cooperative movement has been more broadly advocated across the nation, Co-Op advocates have yet to produce serious empirical research (that can be validated and replicated), that documents the impacts of Co-Ops on the supply of affordable, manufactured housing or the purported claims of economic and financial benefits that accrue to them.[3]

Resident ownership of manufactured housing communities is an appealing story with appeal to many policymakers who have real concerns about homeownership and the supply of affordable housing. Cooperatives especially appeal to populists and believers in the greed and insensitivity of investors, owners, and landlords. Accurate or not, little of that would matter if cooperatives provided the affordable housing, economic, financial, and psychological benefits claimed by advocates. A proliferation of cooperatives is not an indication that they provide real economic, financial and housing benefits, however. Rather, it is an indication that advocates of cooperatives have assembled a combination of favorable financing, government subsidies, and supportive regulations that facilitate their growth. There are at least four issues that should be considered by policymakers in determining the efficacy and desirability of proposals that facilitate or provide incentives for conversion of manufactured housing communities to resident-owned cooperatives:

---

[1] ROC USA PowerPoint presentation "Resident Owned Communities: Ownership, Opportunities, Fairness"

[2] "The Real Economic Impacts of Cooperative Ownership of Manufactured Housing Communities…", PolEcon Research, November, 2008.

[3] The NH Community Loan Fund contracted with sociologists at the University of NH to produce a research report used in advocating cooperatives. Despite repeated attempts to obtain the data used in that analysis to verify findings PolEcon was unable to obtain the data or detailed methodologies to analyze it. This is highly unusual for university-affiliated research. A complete critique of that report and shortcomings of it limited economic analysis is included in PolEcon's report "*The Real Economic Impacts of Manufactured Housing Cooperatives*" available on request.

- What will be the potential long-run impact on the supply of manufactured and affordable housing?
- Will government and taxpayer subsidies be required to promote the cooperative model?
- What are the financial implications, on both cooperatives and homebuyers within them, of lending practices and underwriting standards that have been vilified as contributing to the recent housing crisis?
- Are there economic or financial gains for cooperatives and their homeowners above those realized in traditional, privately-owned communities that would strongly warrant public subsidies?

Each of these issues is briefly discussed in this report. Psychological benefits to homeowners in cooperatives are also appear a primary benefit cited by advocates of cooperatives but they are less amenable to empirical investigation and outside of the expertise of PolEcon to evaluate.

The Impact of Cooperatives on the Supply of Manufactured Housing

Research on the supply of housing and its costs provides convincing evidence of how efforts to provide benefits to one group of citizens can have unintended and negative consequences for other citizens. The clearest and best example is rent control which is designed to make housing more affordable for some residents. Rent controls make rents more affordable for residents in controlled units. However, evidence also shows an unintended consequence is that rents rise more rapidly in uncontrolled units. In addition, a reduction in overall housing investment (in part in response that new units may also someday become rent-controlled) also occurs.

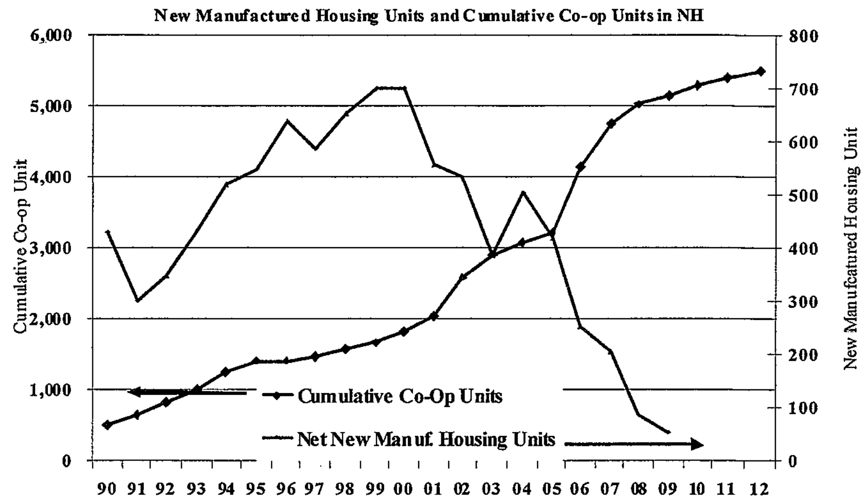
There are several ways in which an increasing number of conversions to cooperatives could affect the supply of manufactured housing and ultimately impact the availability of affordable housing.

- ♦ The primary sources of increased supply, developers and investors, may view the increase in Co-Ops as a sign of declining investment opportunities, a more hostile regulatory environment that minimizes returns on investment, or some other signal of a less favorable environment for expansion of manufactured housing and housing communities. The result would likely be a reduction in investments in manufactured housing, thus limiting a valuable source of affordable housing.

- ♦ Similarly, owners and investors in manufactured housing communities may see a trend toward increased regulations and restrictions on their properties that reduce their economic value. In such a circumstance it is possible that more owners would look to convert their properties to alternate uses or hasten their conversions. In this case, the net number of new manufacture housing units (the number of new units minus the number withdrawn) could decline or stagnate even as some new units or communities are being added.

Our 2008 research on housing trends in New Hampshire shows that the rapid rise in cooperative-ownership coincides with a decline in overall growth in manufactured housing units in New Hampshire. Figure 1 shows that as the number of housing units in cooperative communities increased dramatically this past decade, the net increase in manufactured housing units fell dramatically.

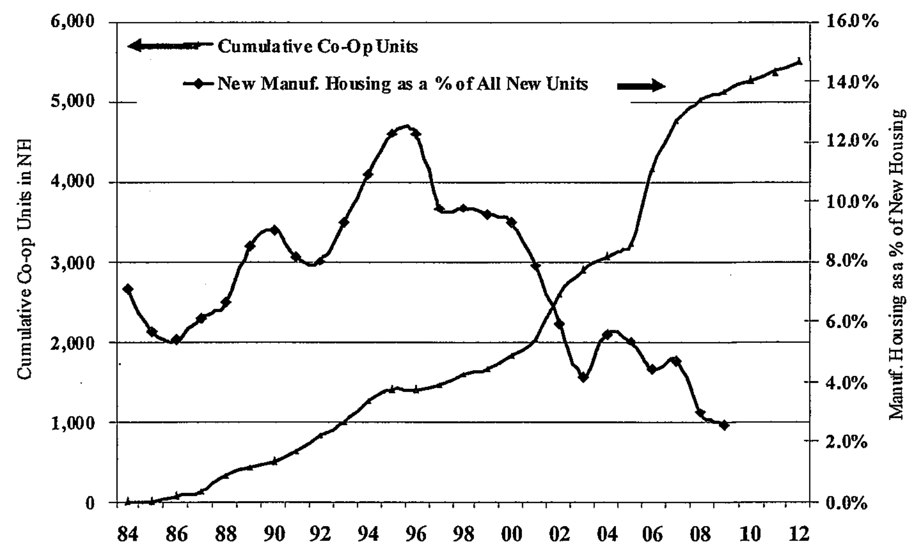
Figure 1
The Dramatic Rise in Cooperative Ownership Coincides With a Fall in Manufactured Home Permits



Source: NH State Data Center, NH Community Loan und, PolEcon.

As Figure 2 also shows, the decline in net new manufactured housing units is not simply a function of a more general decline in new housing units in New Hampshire. The chart shows that in addition to the absolute declining trend in net new manufactured housing units, the percentage of new housing units in New Hampshire represented by manufactured housing also declined during the period of rapid increase in Co-Ops, falling from a high of about 12 percent in 1995 and 1996, to a low of under 3 percent by 2009.

Figure 2
The Percentage of New Housing That is in Manufactured Housing Has Also Declined as Co-ops Have Increased



Source: NH State Data Center, NH Community Loan Fund, PolEcon.

Growth in Manufactured Housing is Negatively Related to the Presence of Co-Ops in a Town

Using more sophisticated, multivariate and econometric techniques, our 2008 research found that the presence of cooperatives in individual towns in New Hampshire was clearly related to slower growth in manufactured housing units compared to towns that had manufactured housing communities but no cooperatives. There are many more factors that influence the supply of manufactured housing but our results show a clear relationship between the presence of cooperatives in a community and slower growth in manufactured housing. These results were the first sophisticated attempt to empirically assess the impacts of Co-Ops on the supply of manufactured housing units. The results support some basic economic principles that suggest increasing barriers (or removing incentives) for private investment in an industry reduces the production or output in an industry.

Liberal Financing and Terms Produce Highly Leveraged Cooperatives and Homeowners

Establishing a cooperative requires both financial expertise and access to capital, two elements not typically available to residents of manufactured housing communities. Advocates of the cooperative movement promote cooperative ownership by supplying financial and management expertise and ready access to capital on extremely favorable terms that are not made available to traditional privately-owned communities or to owners of manufactured homes in communities that do not have cooperative ownership. As advertised by ROC USA, these terms include financing 100% of the appraised value of communities.[4] The NH Community Loan Fund has advertised mortgage financing for homes in co-ops up to 115% of appraised value in the past, although it is unclear if those terms are still available today. These types of "zero down payment," low, or no equity, highly-leveraged loans are widely thought to be a primary cause of the recent housing bubble and subsequent housing market crash and financial crisis in this country. Banks and mortgage companies were roundly criticized and subsequently subject to greater regulatory control as a result of making highly leveraged or zero down-payment loans.

The financial subsidies provided to Co-Op communities and homeowners should be assessed within the context of our understanding of the potential risks posed by highly leveraged real estate transactions. Our research in NH examined over 4,000 transactions in manufactured home communities in NH between 1999 and 2007. We found similar rates of foreclosure among homes in co-ops and investor-owned communities but that analysis was completed before the full impacts of the housing crisis occurred when the problems inherent in highly leveraged and zero equity mortgage loans were more likely to result in foreclosure than were less leveraged loans. Advocates of Co-Ops, and of the liberal financing that allows residents to establish them, dismiss such concerns, but to date but have not provided empirical data on the performance of Co-Op loans. Unlike regulated financial institutions, the specialized organizations that arrange financing for cooperative conversions do not face the same reporting and regulatory requirements as most lenders. In essence, the performance of these loans is what cooperative advocates and their support organizations say they are. If they choose not to report a loan that is 90 days past due as in arrears, there is no publicly available mechanism (as there is with FDIC

[4] See ROC USA http://www.rocusa.org/for-homeowners/financing.aspx .

quarterly bank "call reports" or credit union 5300 quarterly reports) to verify the performance and condition of their loans.

The number of emergency grants awarded to cooperatives documented later in this report provides some indication of the financial position of many cooperatives. There have been several instances where board members of cooperatives have publicly stated their struggles to meet financial obligations.[5]

Although our research was conducted in 2008, during the beginning stages of the housing market crash and subsequent financial crisis, there was some evidence that greater forbearance was granted to delinquent mortgages in Co-Ops compared to mortgages in investor-owned properties. This likely occurred because the sources of financing (the NHCLF, ROC USA) and its partners and funders - foundations, tax credits, as well as banks as part of their Community Reinvestment Act (CRA) requirements were less compelled and under less scrutiny to enforce the provisions of these loans. In this circumstance, loans that traditionally perform more poorly in terms of default rates (highly-leveraged loans) were more likely to be granted forbearance during defaults.

Promoting affordable housing and providing assistance to individuals in obtaining mortgages and in purchasing homes are important and worthy public policy goals. However, the recent housing market crash and resulting financial crisis challenge the belief that public policies and public entities (think Freddie Mac and Fannie Mae) or funds promoting those goal always have beneficial impacts. A clearer understanding of how cooperatives and homeowners in them fared during the recent housing crash should be required before public policies or funds are made widely available to promote cooperatives. As we note later in this report, over a period of just a few years, even a brief review of publicly-funded housing grants revealed that 25% of cooperative in NH required some for of public subsidy for capital improvements.

The inherent subsidies given to Co-Ops (via favorable financing and direct grants for infrastructure investment from governmental, not-for-profit, and some private financial institutions, as well as greater forbearance in enforcing lending terms) can mask the financial difficulties encountered in the purchases of Co-Op communities or homes in a way that traditional, privately-owned communities cannot. It is relatively easy to increase the viability of cooperatives as long as lenders and governments are providing subsidies. Policymakers may, in fact, decide that such subsidies are desirable, and that promoting incentives for resident ownership are warranted. However, given the relatively high level of public subsidy they receive it may be more appropriate to consider Co-Ops to be "resident and publicly-owned manufacturing housing communities" rather than "resident-owned" communities.

[5] As an example the Medvil cooperative testified before a NH House committee looking at the issue of abandoned homes. Medvil board members indicated that they needed to be able to dispose of abandoned homes in their cooperative and rent those lots because their debt service was at 75% of revenues.

Resident-Owned Co-Ops Often Require Government Subsidies

Well-intentioned policies to support cooperatives often result in highly-leveraged cooperative communities that may not be economically viable without substantial subsidies. Manufactured housing communities need periodic infrastructure improvements and investments. Lot rental fees in investor-owned communities must be high enough to build reserves or otherwise cover the cost of capital improvements in their communities. Community residents in traditional, privately- owned parks may recognize the need for improvements but owners of communities are often criticized when lot fees are adjusted to cover these costs. Advocates of cooperatives often criticize owners of manufactured home communities for not making capital improvements and criticizing them for increasing rental fees when they do.

Table 1
Sample of Recent Public Grants to Cooperatives in NH

Municipality	Cooperative and Project	Award
Allenstown	Olde Towne Coop - drinking water supply	$196,735
Allenstown	Catamount Hill Coop - drinking water supply	$387,539
Allenstown	Catamount Hill Coop - electrical, water supply, and septic	$500,000
Barrington	Barrington Oaks Coop	$12,000
Charlestown	Blueberry Hill Coop - city water interconnect	$250,000
Claremont	Joint Sullivan/Pleasant Valley Coop	$650,000
Derry	Running Brook Cooperative - Septic	$84,000
Epsom	Family Estates Cooperative Emergency	$77,000
Exeter	Exeter-Hampton Cooperative feasibility study	$12,000
Goffstown	Medvil Cooperative - Septic System	$266,820
Hinsdale	Ash Brook Swamp Coop - Feasibility Study	$12,000
Hudson	Ottarnic Pond Coop Infrastructure Improvements	$358,600
Hudson	Otarnic Pond Cooperative Feasibility Study	$12,000
Keene	Base Hill Coop - Sewer connection	$500,000
Londonderry	Wagon Wheel Coop Infrastructure	$250,000
Milford	East Milford Coop - Retaining Wall	$148,000
Northfield	Soda Brook Coop - Water source protection	$13,700
Northwood	Tower View Cooperative Feasibility Study	$12,000
Ossipee	Sandy Ridge Estates Cooperative Infrastructure	$500,000
Plymouth	Whip-O-Will Co-op Wastewater Study	$12,000
Raymond	Hill Top Cooperative - Feasibility Study	$12,000
Raymond	Lamprey River Coop Water Connection	$418,603
Raymond	Lilac Drive Coop Septic	$140,000
Raymond	Hill Top Cooperative Subsurface Disposal	$176,500
Statewide	NHCLF - energy retrofit in 425 coop homes	$2,000,000
Tamworth	Tamworth Pines Coop - Feasibility Study	$12,000
	Total	$7,013,497

Advocates of cooperatives downplay the financial challenges that confront cooperatives at the same time they make it clear to potential cooperative owners that assistance in obtaining grant funding and subsidies will be made available. Cooperative owners face the same need to fund capital improvements (as well as other financial needs) as do traditional, privately-owned manufactured housing communities. In NH, these needs have largely been met by obtaining public subsides in the form of government grants to fund inevitable capital improvements.

Advocates thus argue for the benefits that "independence" that resident ownership and control may offer at the same time cooperative appear to increasingly rely on public subsidies for financial viability. The Community Development Block Grant (CDBG) program in each state is funded by the U.S. Housing and Urban Development agency and is one of the primary subsidies increasingly used by cooperatives in NH. Even an incomplete review of CDBG grant awards from the past 6 years[6] shows that fully 25% of cooperatives in NH have obtained CDBG funding totaling more than $7 million (Table 1). Often the first grant awarded to a cooperative is for conducting a 'feasibility study" of a needed infrastructure improvement, followed in later years by a grant to complete the infrastructure project.

The Economic Benefits of Cooperatives Have Not Been Empirically Demonstrated

There may be many reasons for promoting cooperatives, but the results from our 2008 study which examined recorded deeds from over 4,000 manufactured homes sales in NH and which used an appropriate measures of economic gain (home price appreciation using a repeat-sales method), showed that homes in Co-Ops do not offer the economic advantages over homes in traditional, privately-owned communities that are often cited by Co-Op advocates.

There is a vast literature of housing research that is applicable to Co-Ops. The various restrictions, etc. associated with Co-Ops[7] function similar to more general land use and housing regulations. Regulations designed to benefit one group or homeowners or renters (in this case Co-Op homeowners) generally raise prices in the less regulated segment of the housing market. This has been near universally demonstrated with rent controls (a 1999 Fannie Mae study[8] provides a solid review of the studies and evidence), but more generally, research shows that housing restrictions and regulations of many types tend to increase prices in the "unrestricted" or "unregulated" segment of the market. Thus the proliferation of Co-Ops may be buoying appreciation of homes in traditional privately owned manufactured home communities in the same and neighboring towns.

- Our research indicates that the appreciation of homes in traditional, privately-owned communities slightly exceeds that of homes in Co-Ops. *No empirically valid measure has shown that homes in Co-Ops appreciate at a higher rate than do homes in* traditional privately owned communities. A frequently cited (by Co-Op advocates) Consumer Union study measured appreciation using homeowner estimate of appreciation not actual market transactions and a NH Community Loan Fund study had no estimate of price appreciation but implied greater appreciation simply on the basis of initial sales prices.
- Both higher appreciation and higher volume of sales suggest that homes in traditional, privately owned communities are in greater demand compared to homes in Co-Ops

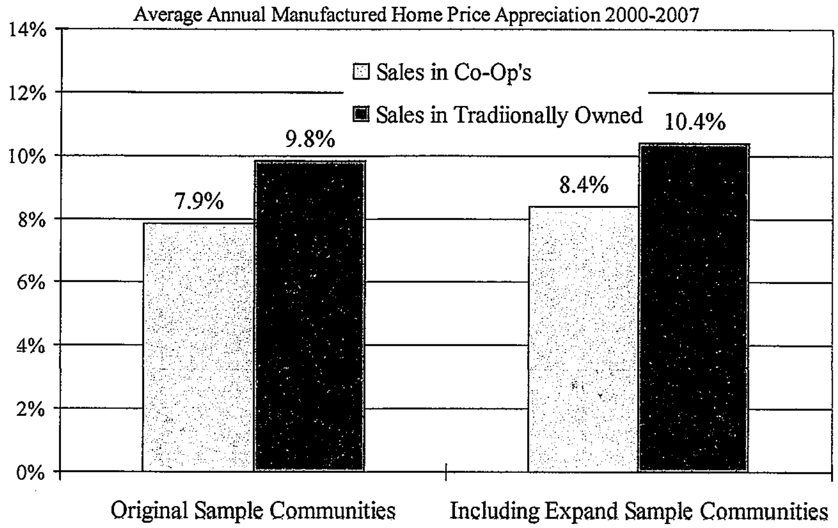
[6] Management of NH's CDBG program has changed agencies (from NH Office of Energy and Planning to the Community Development Finance Agency) and previously available documents listing grant awards are not readily available electronically or on the Internet.

[7] Cooperatives often have participation requirements and other covenants that increasingly account for a high percentage of complaints brought before the NH Board of Manufactured Housing.

[8] Early, D. W. and Phelps, J.T., *"Rent Regulations' Pricing Effect in the Uncontrolled Sector: An Empirical Investigation"*, Journal of Housing Research, Vol 10, No. 2, 1999.

and are likely a more liquid asset than homes in Co-Ops (but neither should be considered a liquid asset).

Figure 3
Average Annual Price Appreciation in NH Was Greater in Traditional Manufactured Housing Communities



Conclusions

Cooperative ownership of manufactured housing communities can provide benefits to residents, but it is important that these benefits not be promoted or subsidized in a manner that comes at the expense of the larger goal of increasing the supply of affordable housing options, or which increases the need for public subsidies and direct expenditures to accomplish these goals. To avoid potential unintended consequences, higher-quality research (than has been introduced thus far by advocates) on the impacts and implications of cooperative ownership of cooperatives is needed before policymakers embrace policies designed to facilitate them. The financial subsidies provided Co-Op communities and homeowners should be assessed within the context of our understanding of the potential dangers of high leverage learned from the recent housing and financial current crises. The inherent subsidies given to Co-Ops (via favorable financing and direct grants for infrastructure investment from governmental, not-for-profit, and some private financial institutions) can mask the financial difficulties encountered in the purchases of Co-Op communities or homes in a way that traditional communities cannot mask. Ultimately such risks may be warranted, but only if the benefits of cooperatives can be clearly shown to outweigh the risks of policies that promote them.