

Cooperative Solutions to the Massachusetts Housing Crisis



A REPORT OF THE
COOPERATIVE DEVELOPMENT INSTITUTE



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EXTREME INEQUALITY IN MASSACHUSETTS SPIKES IN 2020

In the midst of the COVID-19 pandemic, housing insecurity has gotten more extreme across the United States, especially here in Massachusetts. As of March 1, 2021 almost 216,000 Massachusetts residents were behind on their rent or mortgage payments and unsure of how to pay next month.¹

In response to this crisis, interest in housing cooperatives is on the rise.² One of the most prevalent, successful, and often overlooked forms of housing co-ops in the state are resident owned manufactured housing communities. This model can inform other housing sectors, with the goal of creating a resilient ecosystem of affordability.

RURAL AFFORDABLE HOUSING CRUNCH

Manufactured housing communities (MHCs), sometimes still referred to as “mobile home parks”, have long been the go-to affordable housing option in suburban and rural areas for working class, poor, disabled, and elderly residents on limited incomes. In Massachusetts, the median cost of a single family home is almost \$400,000, while a manufactured home is typically under \$100,000.³ As housing costs soar, more families are turning to manufactured housing as an accessible route to homeownership.

Though it makes up over 6% of the US housing stock, manufactured housing has long been stigmatized and made invisible.⁴ In Massachusetts, public officials, affordable housing developers, and conventional lenders often overlook the widespread use of this affordable housing model. Additionally, there are few social, religious and cultural organizations that specifically advocate for economic justice or social integration for these communities. The result is that thousands of Massachusetts residents who call MHCs home are left in increasingly vulnerable positions.

Private Equity targets rural and suburban manufactured housing communities

Enter the speculators. Running out of stable places to invest their compounding cash on hand, private equity investors view MHCs as a ‘recession-proof’ industry in times of economic crisis.

“Mobile homes are no longer just a necessity for the poor. They’ve increasingly become a must-have for some of the world’s richest private equity players.”

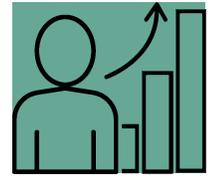
–Georgia Kromrei, “A captured audience”,
The Real Deal, September 2019

An excerpt from a 2019 *Real Deal* story on MHCs prior to the economic downturn of 2020 captures this: “Mobile homes are no longer just a necessity for the poor. They’ve increasingly become a must-have for some of the world’s richest private equity players.” Among the ranks of these private equity MHC investors are names both familiar and surprising—the \$360 billion Sovereign Wealth Fund of Singapore, the \$457 billion Blackstone Group and the \$212 billion Carlyle Group.⁵

And why is this money flooding into what was once an overlooked industry? A 2016 investor pitch from manufactured housing owner and operator, RHP Properties, puts it best, boasting that its 33,000 lot portfolio stretching across seven states had “low cash flow volatility and steady year-over-year rent increases” as well as “minimal capital expenditures.”⁶ Or, as one of the largest investors in the industry so delicately phrased it, renting land to mobile home owners is like operating “a Waffle House where everyone is chained to the booths.”

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Captive “homeowners” with climbing rents



While living in an MHC may appear similar to any other landlord-tenant arrangement, it can be far more precarious than a typical rental. There are two legal contracts at work in an MHC.

First, a resident holds a lease or a mortgage to the home and second, they rent the land beneath their home from the community owner.

“The landlords take the benefits of the cheaper financing, put it in their pocket, make more investments, give it to their investors,”

Patrick Rucker, a correspondent for the research firm The Capitol Forum, told *Business Insider*

An MHC resident is stuck in an untenable situation, trapped with the high costs of home ownership in a unit that financially isn’t even considered housing, which can’t be moved off of increasingly expensive, rented land.

Manufactured homes are not actually mobile. Since 1976, the US Dept of Housing and Urban Development has required that a manufactured home be installed on a permanent foundation, making a single move from the factory to the land in an MHC. Once a home leaves the factory, it’s legally considered personal or chattel property, like a car. Unless that home is installed on land owned by the buyer it only qualifies for a consumer unfriendly chattel loan. Such loans come with higher rates, shorter terms, and fewer consumer protections than conventional mortgages.⁸ This means the manufactured home buyer misses out on the benefits and security of a traditional FHA-backed mortgage, even though they’re buying a home to live in and not a car.

Once the home has been installed in a community, the resident has to cover both the chattel loan on their home and the rent for their lot each month. If the resident who owns the unit but not the land can no longer afford the lot rent in a community, their only choice is to forfeit their equity and abandon the home, or to lose it through foreclosure. The park owner either acquires the home due to back rent, or buys it through an auction, and can then sell it to the next family. An MHC resident is stuck in an untenable situation, trapped with the high costs of homeownership in a unit that financially isn’t even considered housing, which can’t be moved off of increasingly expensive, rented land.

Solution: Convert to resident ownership of the parks

A route out of this precarious position comes in the form of resident ownership, in which resident cooperatives are formed to buy and operate their communities, taking the private landlord out of the equation.

In Massachusetts, over 15% of the entire MHC housing market has converted to affordable resident cooperatives.

In Massachusetts, thanks to the work of tenant and consumer advocates in the 1990s, cooperatives are established with the Right of First Refusal, which allows residents to collectively purchase their communities when the land goes up for sale.

The Right of First Refusal's aggressive timeline is a challenge, however, as speculators flood the industry, making unsolicited bids. Residents receive notice that the land beneath their homes is for sale, and have just 45 days to organize, form a corporation, enter into contract, and match the speculator's price. Within the following 90 days, residents assess the property's condition, obtain financing commitments, and conduct a community-wide vote on whether to purchase.

Despite this breakneck turnaround, resident buyouts happen, and at an impressive scale. In Massachusetts, over 15% of the entire MHC housing market has converted to affordable resident cooperatives.⁹ This was largely accomplished with the support of the Northampton-based nonprofit Cooperative Development Institute (CDI),¹⁰ following a model developed by the New Hampshire Community Loan Fund, and advanced to scale nationally by the social venture, ROC USA.

The financing for these community purchases comes from ROC USA's lending subsidiary, ROC USA Capital,¹¹ which partners with local and regional banks, as well as other cooperative lenders. The intensive, long-term training and technical assistance provided by CDI makes for high quality conversions, stabilization, and community self-sufficiency. In Massachusetts, residents have been successfully converting their communities since the 1990s. Those converted since 2009 using the ROC USA model have maintained a default rate of zero.

Residents buy Halifax mobile home park for \$27M



Halifax Estates, Halifax, MA

Featured in the *Patriot Ledger* Oct 19, 2017:

HALIFAX -- Hundreds of residents, friends and well-wishers gathered . . . to celebrate the association's \$27 million purchase of the homes and property, and its conversion into a nonprofit cooperative.

With 430 units on 154 acres and 700 residents, Halifax Estates is the most expensive such purchase a cooperative has ever made. It also represents 10 percent of the town's population and 15 percent of its housing stock.

"This is security," said Nancy Froio, a retired printing company employee who's president of the co-op's board of directors. "We own it, instead of an investor owning it."

Cooperative housing ownership as economic recovery strategy

With 3,251 units of affordable resident-owned manufactured housing in Massachusetts, representing over \$144 million in total investment with a zero loan loss rate, the advantages of local cooperative ownership are clear.

Residents are guaranteed stable, affordable, and community controlled housing for years to come, free from the whims of a private investor. Communities surrounding a resident-owned MHC also benefit from the social stability, reduced transience, and reliable tax base. Businesses gain from the recirculation of dollars through the local economy. Supporting the expansion and replication of housing cooperative models is good for the state of Massachusetts, particularly for communities impacted by extreme wealth inequality by race due to historic housing discrimination.¹² Frontline, grassroots organizations throughout Massachusetts are already having these conversations about the cooperative model.

Residents are interested in—and capable of—cooperative ownership; the evidence from the ROC model is clear and convincing. A number of policies could expand the cooperative model in both the manufactured housing and the multifamily housing sectors, thereby creating an ecosystem of affordable options statewide. We must also reinvest in existing multifamily cooperatives owned by lower income residents to support leadership and maintain properties.

Recommendations

Strengthen and expand the Right of First Refusal law in Massachusetts to include multifamily housing. The Tenant Option to Purchase Act (TOPA) allows for municipalities to opt-in to this community-enhancement opportunity.

Provide public investment (bonds, tax incentives, infrastructure improvements) in cooperative conversion and development to restabilize families and communities. This will prevent massive displacement and save on emergency services and rental subsidies.

Support alternative ownership models (land trusts, etc) and regulation (zoning) that offer more options for stable housing and cooperative land ownership.¹³

Expand the use of conventional financing for co-op acquisitions - banks, credit unions and other lenders should be incentivized to extend financing to cooperative owners. Lenders can benefit from high repayment rates while residents benefit from more consumer-friendly financial products.



Turnpike Park Cooperative, Westborough, MA

ABOUT THE COOPERATIVE DEVELOPMENT INSTITUTE

The Cooperative Development Institute's mission is to build a cooperative economy through the creation and development of successful cooperative enterprises. We are transforming ownership of our economy. CDI provides technical assistance and support for cooperative solutions in food systems, affordable housing, worker ownership, and social entrepreneurship throughout the Northeast. We envision a democratically-owned and just economy where everyone can fulfill their needs and aspirations.

Endnotes:

- 1 US Census Bureau, *Household Pulse Survey*, Week 25 (2021). https://www.census.gov/data-tools/demo/hhp/#/?measures=HIR&s_state=00025
- 2 The Affordable Housing Issue, *Yes Magazine*, (2018, Summer). <https://www.yesmagazine.org/issues/affordable-housing>
- 3 Sullivan, J. (2019, April 15). *Stop Trashing an Affordable Housing Option*. Retrieved September 17, 2020, from <https://commonwealthmagazine.org/housing/stop-trashing-an-affordable-housing-option/>
- 4 Prosperity Now, (2019, June) "*Facts About Manufactured Housing- 2019*", <https://prosperitynow.org/resources/facts-about-manufactured-housing-2019>
- 5 Americans for Financial Reform (2019, February) "*Private Equity Giants Converge on Manufactured Homes*". <https://pestakeholder.org/wp-content/uploads/2019/02/Private-Equity-Giants-Converge-on-Manufactured-Homes-PESP-MHAction-AFR-021419.pdf>
- 6 Kromrei, G. (2019, November 1). "*Private equity Firms are Pouring Billions into Mobile Home Communities - Here's Why They're Banking on Manufactured Housing as a 'Recession-Proof' Industry*" <http://static1.businessinsider.com/why-mobile-homes-are-a-billion-dollar-recession-proof-industry-2019-11>
- 7 Locker, M. (2019, April 8). "John Oliver and Janet from The Good Place Warn About Mobile Homes on Last Week Tonight", *Time Magazine*, <https://time.com/5565832/john-oliver-mobile-homes-last-week-tonight>
- 8 Consumer Financial Protection Bureau. (2014, September). "*Manufactured Housing Consumer Finance in United States*" page 32 https://files.consumerfinance.gov/f/201409_cfpb_report_manufactured-housing.pdf
- 9 15%, representing 3,251 limited equity cooperative units converted by Cooperative Development Institute and 20,486 total units per the MA Manufactured Homes Commission.
- 10 CDI is a Certified Technical Assistance Provider to ROC USA.
- 11 ROC USA Capital is a US Treasury certified Community Development Financial Institution.
- 12 Muñoz, A. (2015, March 25). "The Color of Wealth", Federal Reserve Bank of Boston. <https://www.bostonfed.org/publications/one-time-pubs/color-of-wealth.aspx>
- 13 Giszpenc, N. (2014, December 4). "What are the Types of Housing Co-ops and other Shared Housing Models?", Cooperative Development Institute <https://cdi.coop/coop-cathy-types-of-housing-coops/>

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