

## **INTERVIEW WITH KEVIN CLAYTON**

*What he says about the Manufactured Housing Business*

The question that I am asked the most is, where is the manufactured housing business headed? We all are vitally concerned about the future of home sales, communities and the state of chattel lending.

This month's interview is a summary of Kevin Clayton's remarks to the Illinois Manufactured Housing Association. In May, Kevin flew to the meeting in Galena, Illinois (in his own plane - he is a pilot) and spent the day and evening discussing industry challenges. Kevin is upbeat about the future for the demand for homes, the community business, and lending. He also delighted the audience with pictures of his three year old daughter, Ella. She is adorable! And who knows, maybe there is a girl CEO in the future of Clayton Homes.

What can anyone say about Kevin Clayton that hasn't been said before? He is the CEO of Clayton Homes and part of the Berkshire Hathaway conglomerate. When Warren Buffet purchased Clayton Homes, it was under the stipulation that Kevin Clayton stay on to operate the business. In the 2005 Annual Report to shareholders for Berkshire Hathaway, Warren Buffet said this "The star of our finance sector is Clayton Homes, masterfully run by Kevin Clayton. He does not owe his brilliant record to a rising tide: The manufactured-housing business has been disappointing since Berkshire purchased Clayton in 2003. Industry sales have stagnated at 40-year lows, and the recent uptick from Katrina-related demand will almost certainly be short-lived. In recent years, many industry participants have suffered losses, and only Clayton has earned significant money." In 2005 Kevin was named Industry Person of the year by the Manufactured Housing Institute. Not bad for someone who earned 75 cents an hour, working after school to help his father, Jim Clayton, set up and refurbish mobile and manufactured homes. And what a business it is.

Clayton Homes is one of the largest manufacturers of manufactured homes in the US as well as one of the largest retailers and community owners. Their financial services division, 21<sup>st</sup> Mortgage and Vanderbilt Mortgage, have grown tremendously. Clayton Homes has over 13,000 employees, and Kevin says their success is based on their philosophy of a balanced life. They apply these ideas to all aspects of their business. Their strategies are simple but powerful and have been successful for Clayton Homes. At Clayton, the emphasis is on the people.

- Work hard, smart, and together.
- Greatness is achieved by making small improvements every day.
- Create a culture of open and honest communication.
- Our reputation is our most valuable asset.
- Our lives work only to the extent that we are willing to keep our agreements.

At Clayton Homes; they want their people to have a balance in their life between work, family, spirituality, and health. They encourage people not to work too much, to spend time with their families, to work out and to eat in a healthy way. It sure seems to have worked for Clayton

Homes. Maybe there is a lesson to be learned from this very successful company that is poised for even more success in the future.

One of the things that Kevin talked about was FHA financing. No one else in the manufactured home sales business seems to be talking about it. A new law is going to be passed (it will probably be passed by the time you read this) that will increase the limits for the loan amounts, making it easier for manufactured homes to use FHA for chattel loans. At Clayton Homes, some of their retail centers have had a lot of success with it. It's more paper work but the point is they are selling more homes using FHA.

He went on to say that "Resale is the key. As Warren Buffett says 'the MH industry is not going to grow until we expand the market by improving resale's'. This can be accomplished. As the lender begins to require aesthetic characteristics (landscaping, garages, parking, masonry foundation/steps, etc) then we deliver a product that can be sold by a Realtor when the customer gets into financial problems. This significantly improves the lender's position, allowing them to be more liberal on underwriting and down payment requirements (expanding the market)."

Kevin talked a lot about resale because he believes big changes will be needed in the future for homes in the community business to be sold. For quite a long time, the manufacturers, the community owners, the retailers, and the industry leaders at MHI have known that the key to growing the industry has been a vital resale market. While we all know this, it has been very difficult to make any changes.

The fact is that there is virtually zero progress, especially when compared to the residential, site built resale market. Many community owners have said to me that once the interest rates on residential real estate go up, the community and home sales business for manufactured housing will revive. What they mean is that it's going to take a bubble burst and/or a recession to improve our industry. In the past that has proved to be a good thing for manufactured home sales and communities. When interest rates are high for residential homes, it is easier to make a case for buying a manufactured home.

If interest rates do go up for residential real estate, which is unlikely given the present state of the economy, it still may not result in sales of manufactured homes and more sites filled in communities. Here's why:

- Sales of homes in communities do not have the options that residential real estate enjoys. The National Association of Realtors has invested heavily in technology which has made the ease and abundance of information a huge market for sales of homes. Of course, the

low interest rates in residential have been the key, but right up there with the low interest rates has been the ease in which consumers can look at homes, study neighborhoods and really get a grip on the market. The perception of a home buyer is that the home they buy will not go down in value. There's little information in the sale of homes in communities. If you're a home owner that wants to buy or sell a home, you are pretty much on your own. Good luck getting statistics or identifying any trends regarding the possible change in a home's value. Financing is difficult, and again, most of the time you are on your own. In residential real estate, lenders are competing to make loans even to buyers with poor credit.

Until we get information available to consumers, making it easy to list and sell homes and correct the perception that a manufactured home is going to depreciate, its going to be really difficult to impact the resale market.

- Kevin Clayton and Warren Buffett have stated that the key to the growth of this business is resale; meaning that realtors need to enter our market to do the resale's. It's a rare community owner or retailer that can do any sizable business on resale. There are some that are doing very well, but those are isolated cases that have been in the business for a long time and have significant skill, knowledge, capital and a deep commitment to doing so. Most community owners do not have what it takes in terms of committing capital, resources, and time to impact the sales of the homes and get control of filling vacant sites.

So the question is: What will it take? What will have to happen to get Realtors involved in marketing our homes in a way that will yield significant growth in the manufactured home sales and the community business? Can the home sales business and the community business afford to sit on the sidelines of the greatest housing boom in US history?