

SRC Home & Land Solutions
Manufactured Home Build Project: Where to Start

Overall Budget = Contingency + (Manufactured Home + Setup) + (Land Purchase + Development)

Find your OVERALL BUDGET. Including ALL costs for **Contingency, Manufactured Home, Setup, Land, and Development....**

- A.** *Speak with multiple lenders.* This will help you get a solid idea on what you can get approved for loan wise either now or in the future. Lenders can also give you advice and optional goals for improving your loan amount if you find that you aren't happy with where you initially landed.
- B.** *Look for Construction Loan programs.* For this type of project, you want to find a Construction loan program, these will convert to a traditional style mortgage using the land and home both for collateral. If you *already own land* and do not wish for the land to be tied into your future loan as collateral, and the land only needs utilities or minimal development then you could look at Chattel loan options. Shop local lenders, big box lenders, credit unions, etc....
- C.** *Make sure you understand all the loan's details.* Such as down payment amount, how much other "cash on hand" the lender may expect you to have set aside, and what their contingency requirement within the budget is. Down payments (3.5% - 20%) can be cash but they also can be a combination of any equity you may have in the land or equity in the projected value of the home once it is complete. The contingency requirement usually reserves about 10% of the Overall budget for unforeseen additional costs that come up during the build. No budget is perfect and not even the best builder can perfectly foresee every cost exactly, so expect the unexpected and be prepared.

Construction Loan types: (FHA, Conventional, USDA, and VA all offer construction loans)

- a.** One-time close construction loan means your loan will feature a single interest rate and it will be offered at a 30 year fixed interest mortgage. Rates are usually a little higher than a two-close construction loan. Monthly payments will typically be "interest only" during the construction phase based on the amount of money that has been drawn out for the project at the time the payment is due. This keeps the monthly payments relatively low until construction is completed and the payments transition to a standard mortgage payment including principal, interest, taxes, and insurance, etc. This type of loan requires only one loan closing at the beginning, with no need to requalify and close on it again after construction is complete and it changes to a 30 year traditional mortgage.
 - b.** Two-close construction loan instead usually has an adjustable-rate loan during the construction phase and then a fixed interest rate when it converts to a 30 year fixed mortgage. The fixed rate is typically is lower than what it would be with a one-time close construction loan. Payments during construction usually are "interest only" and based on the amount of money that has been drawn out for the project at the time the payment is due. This type of loan essentially requires two separate loan closings, one before construction begins and the second one after construction has been completed. Two closings can mean additional loan fees, another appraisal, another credit pull and qualifying for "loan approval" before getting into your 30 year traditional mortgage.
- D.** *Down payment options if you already own land.*
 - a.** If you currently owe any money on the land then you would need to roll the cost of paying off the remaining balance and rolling that cost into your new construction loan budget. But the equity value of the land could potentially count towards your down payment requirement for closing on the loan. For example, the land is valued at \$50,000 but you only owe \$25,000 on it. $\$50,000 \text{ value} - \$25,000 \text{ owed} = \$25,000 \text{ in equity}$. If the new loan for construction requires a 20% down payment and total Construction Loan will be \$250,000 then instead of coming up with \$50,000 in cash... $\$250,000 \times 20\% = \$50,000$ you would only need \$25,000 in cash because they would count the \$25,000 in land equity towards the down payment total. $\$25,000 \text{ cash} + \$25,000 \text{ land equity} = \$50,000 \text{ down payment requirement}$. Your loan principal at the end would only be adjusted by the cash amount. $\$250,000 - \$25,000 \text{ cash} = \$225,000 \text{ loan principal}$
 - b.** If you own the land free and clear then you may be able to use the value of the land towards your downpayment for the construction loan. This just means you may need little to no cash out of pocket towards your down payment to close the loan. For example, if you own land that is worth \$50,000 and your expected total construction loan will be \$250,000 with a 20% down payment requirement. $\$250,000 \times 20\% = \$50,000$ so instead of coming up with \$50,000 cash you will wrap your land into the loan as collateral and it will take the place of needing cash. With a cash downpayment your loan total goes down with your payment $\$250,000 - \$50,000 \text{ cash} = \text{Principal loan amount of } \$200,000$. With using land as your down payment your loan amount will not adjust $\$250,000 \text{ w/ } \$50,000 \text{ Land Value} = \$250,000 \text{ Principal Loan amount}$.

FYI: this is not a perfect example or exactly what it may look like in real application but is just meant to give you a general idea.

- E. *If you are Paying Cash or using an Equity Line* for the entire build then you can disregard speaking to lenders but you need to still figure out what your ideal Overall Budget is for what you can afford to put into the build. Also, I strongly recommend setting aside a 5-10% Contingency amount within the budget.

FYI: When a lender pulls your credit score to give you personalized loan options and terms, you then have 45 days to shop around at as many lenders as you want. All the prospective lenders can pull your credit score and all the credit pulls will only count as a single pull on your credit. This means that multiple mortgage loan pulls within that 45-day window will only negatively affect your credit score once and only by a few points at most. So PLEASE do not let the perceived potential negative effect on your credit score stop you from taking this step, even if you are not quite ready to jump and start your project and you feel like you are only in the “research” phase. Lenders can help counsel you on what you can do to bring your credit score up if needed or how to improve your Debt-to-Income in the most impactful way to get a better loan amount.

CONTINGENCY Calculation: *Overall Budget x (10%) = Contingency.* After you have spoken to lenders and have an idea of what you need to set aside for your contingency out of your approved budget amount, this will allow you to see what you have left to work with and apply towards the other costs for the project. *(Overall Budget – Contingency) = (Home + Land + Land Development)*

MANUFACTURED HOME: Purchase & Setup Quotes Go to multiple home dealers, walk through model homes, price out base prices for homes, price out options/upgrades, talk to salesmen, research online, etc. then pursue full quotes on multiple potential homes.

- A. *Obtain quotes on potential manufactured home options.* Ensure these quotes are broken down with details on what is included in the quoted pricing. Costs to look for being included in the quotes: Foundation install, Delivery, Setup/Install, Tie Downs, Interior/Exterior Finishing/Close up, required Steps/Decking. If any of these are not included you should get quotes from a Contractors to estimate these costs and/or ask the Dealer if they have an option for these costs included with the home and what the cost difference for that is. Do not forget to consider Sales Tax as an additional cost if it is not already included on the home quotes.
- B. *Get multiple quotes.* This means getting quotes from more than one manufacturer and various sizes of homes so you can have price options to weigh and consider when trying to balance your Overall Budget.
- C. *Compare Standard Features on different homes.* Every manufacturer for every tier/series of their homes has a list of “Standard Features” for those homes. These are the features that are included in the home at the base price without any upgrades. This list will tell you a lot about the home’s specs including roof strength, floor joist size, ceiling heights, cabinet material, flooring, bathroom fixtures, energy star rating, insulation values, appliances, siding type, etc. This will help give you an idea of whether you are comparing “apples” to “apples” when going over pricing.

FYI: All manufactured homes sold for placement within Washington are required to be Energy Star rated. Energy star features for manufactured homes include: 2x6 exterior walls, R-40 Ceiling/R-21 Wall/R-33 Floor minimum insulation values, dual pane low-e argon windows, sealed and insulated duct system, LED lighting, smart thermostat, whole house fan, vapor barrier, Energy Star appliances, etc. Some manufacturers even have an option for homes that meet even higher efficiency level called ZERH (Zero Energy Ready Homes).

Having a general idea of cost range for the manufactured home purchase and placement will help you calculate a range of what your Land and Land Development portions of the budget can be.

(Overall Budget – Contingency) – Higher Home Quote = Lower Budget potential for Land + Land Development

(Overall Budget – Contingency) – Lower Home Quote = Higher Budget potential for Land + Land Development

This should help you balance the Overall Budget as you weigh the Pros and Cons for Manufactured Home and Land options. Build a *bigger, fancier house with less total land purchase and development costs* OR *smaller, more conservative house with more total land purchase and development costs.*

LAND: Purchase and Development Process. When searching for Land it can be a bit of a complex balancing act determining how each option you consider fits into your Overall Budget.

If you already own land but haven’t done any research on building on it then you can skip ahead to **B.**

If you already own land and already understand and have researched available utilities, site restrictions, zoning, etc. then you can skip to **C.**

- A. *How to find land?* One option is to find a Real Estate agent that is knowledgeable in land purchases and with the process of development and home building. For Sale By Owner is also an option to look for in places like Facebook Marketplace, Craigslist, driving around an area you are interested in, or other online Real Estate sites. Be careful of scams and do NOT buy land sight unseen. Also, I recommend all land purchase transactions be done through a legitimate Title Company who will do the research on the property having a clear and insurable title with no uncleared existing liens.

- B. What to look for? Zoning, Access, Deed Restrictions, Utilities: water, sewer, power, and Critical Areas are some of the first considerations when looking at land to buy. Research, research, research.**
- i. *Check for is access, zoning, HOA, and deed restrictions.*
 - a. Get familiar with the different zoning codes and areas within your prospective communities, this will help you get a handle on what you can do and where. In WA state if the zoning allows single family homes, then you don't have to worry about whether a manufactured home is allowed or not because anywhere a single-family residence can be built, a manufactured home is legally allowed. WA has a law that protects manufactured homes as being an affordable type of housing therefore cities, towns, and counties cannot restrict or prohibit them from being placed, only HOAs can legally prohibit their placement on a property. Other states you will need to dig into the codes within your zoning types or contact the permitting authority to find out if manufactured homes are allowed on the property.
 - b. Make sure the property is adjacent to a public road or to a private street and/or easement that is formal and legally recorded, guaranteeing you free and uninhibited access to the property.
 - c. Many HOAs do not allow manufactured/mobile homes to be placed on properties within their communities. Look for recorded Codes, Conditions, and Restrictions (CCRs) attached to the property and read through them carefully. You can even reach out the HOA's Architectural Committee (if one exists) to get an idea of how friendly they are to manufactured homes within the community, because just because they are not explicitly prohibited does not mean you will find them welcome or accepted.
 - d. Look up any pertinent survey maps that you can find. The survey maps will often tell you about any other deed restrictions for the property as well as may show you any recorded easements that may affect build area, access, utilities, etc.
 - e. To find any of these recorded documents you can start with a search online to see if your county has them available for public access through their website. (Many counties in WA have all their recorded documents available to search through online or at least the more recent records available.) If not available online then you may need to make a trip down to the county records office to search there. You can also contact local Title Companies in your area and ask what it would cost for them to research the property for you, their search will be much more thorough and definitive.
 - ii. *IF there ARE community sewer and water connections available to the property, call the service providers and get the costs for hookup fees, water meter, and any other requirements for installation of connections.*
 - iii. *IF there is NO SEWER connection available then you need to have a "perc test" done on the soil to ensure a septic is feasible and to give you an idea of what type of septic is required so you can get quotes on what it will cost. Most areas also have a minimum lot size requirement to allow septic. In WA state it is 12,500 sqft, with an exception to allow septic on smaller lots legally created before 1995.*
 - iv. *IF there is NO WATER connection available then you need to investigate well feasibility for the area. Look up well logs to find depths in the property's area. Also, seek out quotes for drilling a well and installing a pump for it. In WA there are areas where drilling wells is not allowed and a rain catchment system will need to be used instead, this does not eliminate the potential of building a home on the property.*

WA Well log info: <https://apps.wa.gov/ecology/wellconstruction/map/WCLSWebMap/default.aspx>
WA Rain Catchment info: <https://ecology.wa.gov/water-shorelines/water-supply/water-recovery-solutions/rainwater-collection>
 - v. *Look in the area for the closest power/electrical connections to the property; power lines, transformers, other properties nearby with homes, etc. Contact the local power company for a quote for power being run to the property line as well as to the estimated home site and meter.*
 - vi. *Contact city/county to investigate records and maps for any Critical Areas near and on the property that may affect building on the property. Most counties/cities have maps available to find potential issues with critical areas. Critical area hurdles that effect the buildable area of a property and things to look for are: wetlands, streams, wildlife conservation areas, geologically hazardous areas: steep slopes, unstable soil types, etc.*
 - vii. *Search surrounding property permit records, if available. These can give you an idea of if there are critical areas in the area and what kind of potential extra reports or permitting may be required.*
 - viii. *Investigate building permit application requirements and the permitting process. Talk with the county/city planning and permitting department to get a feel for anything they may know about the prospective property as well as anything they can tell you about the permitting process with them.*
- C. Collect info and research what "average" land costs to develop in your area. This will take some leg work and willingness to make calls to chat with Builders/General Contractors to get a feel for costs for home building in your area. These costs can fluctuate dramatically between various properties and locations.**
- D. Purchase price is important in balancing your Land budget. A more expensive land purchase price for the land should equal less expensive to develop the land and build on it. A less expensive land purchase price can allow for a higher development cost or if you**

luck out and there are no increases in development costs then there may be extra room in the budget for more home upgrades, larger floorplan, etc.

- E. *Making an offer and getting under contract on the land.* Make your offer and within the Purchase and Sale Agreement contract I recommend that you include a Feasibility contingency. It is very common for an offer on land to include a Feasibility Contingency period that gives the buyer a certain amount of time to investigate the property without risk of losing the earnest money that they deposited on the contract. Doing a thorough feasibility on a property is a make-or-break moment for land purchases, DO YOUR HOMEWORK. If you don't have experience purchasing real estate and working with real estate contracts, I recommend using a knowledgeable and experienced Real Estate agent and Title company to help ensure your purchase transaction goes smoothly.

Having a general idea of the cost range for your land and land development will help you calculate a range of what your manufactured home purchase and placement portions of the budget can be.

(Overall Budget – Contingency) – (Higher Total Land + Development Cost Estimate) = Lower Budget potential for Home

(Overall Budget – Contingency) – (Lower Total Land + Development Cost Estimate) = Higher Budget potential for Home

This is the other piece that will help you balance the Overall Budget as you weigh the Pros and Cons for Land and Manufactured Home options. Buy land that is more expensive in total land purchase and development costs leaves you with a smaller budget for the manufactured home and setup budget OR buy land that is less expensive in total land purchase and development costs leaves you with a larger budget for the manufactured home and setup.

Budget Calculation Example:

1. **Overall Budget = Contingency + (Manufactured Home + Setup) + (Land Purchase + Development)**

Overall Budget = \$500,000 (Loan amount approved by Lender)

2. **Overall Budget x (10%) = Contingency**

\$500,000 x (.10) = \$50,000 Contingency

3. **(Overall Budget – Contingency) = (Home + Setup + Land Purchase + Development)**

\$500,000 - \$50,000 = \$450,000 Total Budget for Home + Land + Land Development

Steps 4. and 5. are interchangeable and these steps are where your adjustments will happen to balance your Overall Budget as you do your research and find out more details on the costs for your project.

4. **(Overall Budget – Contingency) – (Home + Setup Quote Estimate) = Land + Development Budget**

Home Quote Price: \$150,000 Home Setup Price: \$50,000

(\$500,000 - \$50,000) – (\$150,000 + \$50,000) = \$250,000 Land & Development Budget

5. **(Overall Budget – Contingency) – (Total Land + Development Cost Estimate) = Home + Setup Quote Budget**

Home Quote Price: \$150,000 Home Setup Price: \$50,000

(\$500,000 - \$50,000) – (\$150,000 + \$50,000) = \$250,000 Land & Development Budget