

Zumbro Ridge Blazes a Trail to 100% Occupancy

Co-op board members leverage local expertise to fill vacant lots, bolstering the bottom line and creating affordable homeownership opportunity

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One of the compelling characteristics of cooperative ownership is the way the co-op model promotes the cultivation of local leadership and encourages homegrown innovation. The story of a pioneering homeownership program at Zumbro Ridge Estates, a cooperatively-owned manufactured home community in Rochester, Minnesota, is an excellent example of the localized innovation that co-ops are famous for.

The brains behind the homeownership program is Allie Lechner, who has served as an officer on the Co-op's board of directors since 2018. Allie, who has a long professional history in multifamily property management, joined the board with the goal of helping the Co-op increase revenue. Her strategy to do it? Fill vacant lots.

At the time the residents purchased Zumbro Ridge in October 2017, the 112-site community had 30 vacant lots and lot rent was \$365 per month. The income lost from the vacant lots equated to nearly \$11,000 per month, or over \$131,000 per year. This type of vacancy isn't uncommon for manufactured home communities (MHCs). In fact, home attrition is perhaps the biggest threat to the financial health of any MHC, regardless of the type of ownership.

Lots can become vacant for a whole host of reasons, but the most common reason is when older homes



Amanda Mata (pictured right) was one of the first homebuyers through the Zumbro Ridge Estates homeownership program. Shortly after moving into her new three bed, two-bath home in July 2019, Amanda was recruited by Allie Lechner (pictured left) to join the Zumbro Ridge Board of Directors. Allie, who is the driving force behind the homeownership program serves as Board Operations Manager. Amanda now serves as Treasurer.

(often units that pre-date the institution of the national manufactured home building code) are unable to be renovated and have to be decommissioned.¹ Ailing homes are often abandoned by the current occupants, which leaves the MHC owner bearing the financial responsibility to either rehab the home or demolish it. Either option is costly.²

Genesis of the Program

Allie began working on the homeownership program in the summer of 2018. She started her journey by attending a local affordable housing coalition meeting where she pitched her idea to the group. The meeting attendees ended up connecting Allie with Steve Borchardt at The Rochester Area Foundation. This early connection ended up being especially fortunate because Steve has a lot of experience with manufactured housing. His first home as a young man was a manufactured home at an MHC in Rochester. Steve furthered his familiarity with the owners and residents of other Rochester area MHCs in his seventeen-year tenure as Sheriff of Olmsted County.

"I was impressed by Allie's passion and clear vision for Zumbro Ridge," Steve said of his first meeting with Allie. "She believed in the community and saw the potential for improving it."

Steve, who knows the owner of Hallmark Terrace (the



After moving into his new home in the spring of 2020, Paul Hublein immediately set to work building a carport and patio area.

125-site MHC adjacent to Zumbro Ridge), recalled how the Hallmark owner would fill vacant lots by purchasing homes directly from a local manufactured home dealer and then turn around and sell them. He figured the same approach would work at Zumbro Ridge.

Over the next few months, Allie and Steve developed a program concept that Allie could take to the Foundation. They also worked together to complete a handful of beautification projects to help enhance the curb appeal of the Co-op and make the property attractive and welcoming to new homebuyers.

The larger Zumbro Ridge community came together around the project as well. The weekend before The Foundation's loan and grant committee did their final site visit, Allie coordinated a community-wide clean-up to help put the Co-op's best foot forward.

"The effort was impressive and showed the committee that the whole community was serious about getting the vacant lots filled," Steve said.

Program Partners

Zumbro Ridge secured a \$340,000 revolving line of credit and a \$30,000 grant from the Foundation. The line of credit allowed Zumbro Ridge to purchase and install an initial five new manufactured homes. The grant provided the funds necessary to prepare the lots for home placement.³ The Foundation also worked with their affiliate organization, First Homes, to expand an existing downpayment assistance program to manufactured homebuyers.⁴

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"Allie's vision and passion for the community was what sold the Foundation on investing in the project," Steve said. "She's really trying to build a community, not just a housing solution — a place where everyone feels proud of where they live."

The Foundation worked with Zumbro Ridge to develop a relationship with Homes of Harmony, the program's participating home dealer.⁵ Homes of Harmony owner, Denny Kiefer, worked with Allie and Steve to determine the right specifications and price points for the homes.⁶ Ultimately, Zumbro Ridge chose homes from Schult's Lifestyle series for the first round of home placements.⁷

The total development cost of each home was \$68,000 including a front entry deck. Homes of Harmony managed the entire process from ordering to installation and provided Zumbro Ridge a volume sale discount due to the number of homes they purchased at one time.

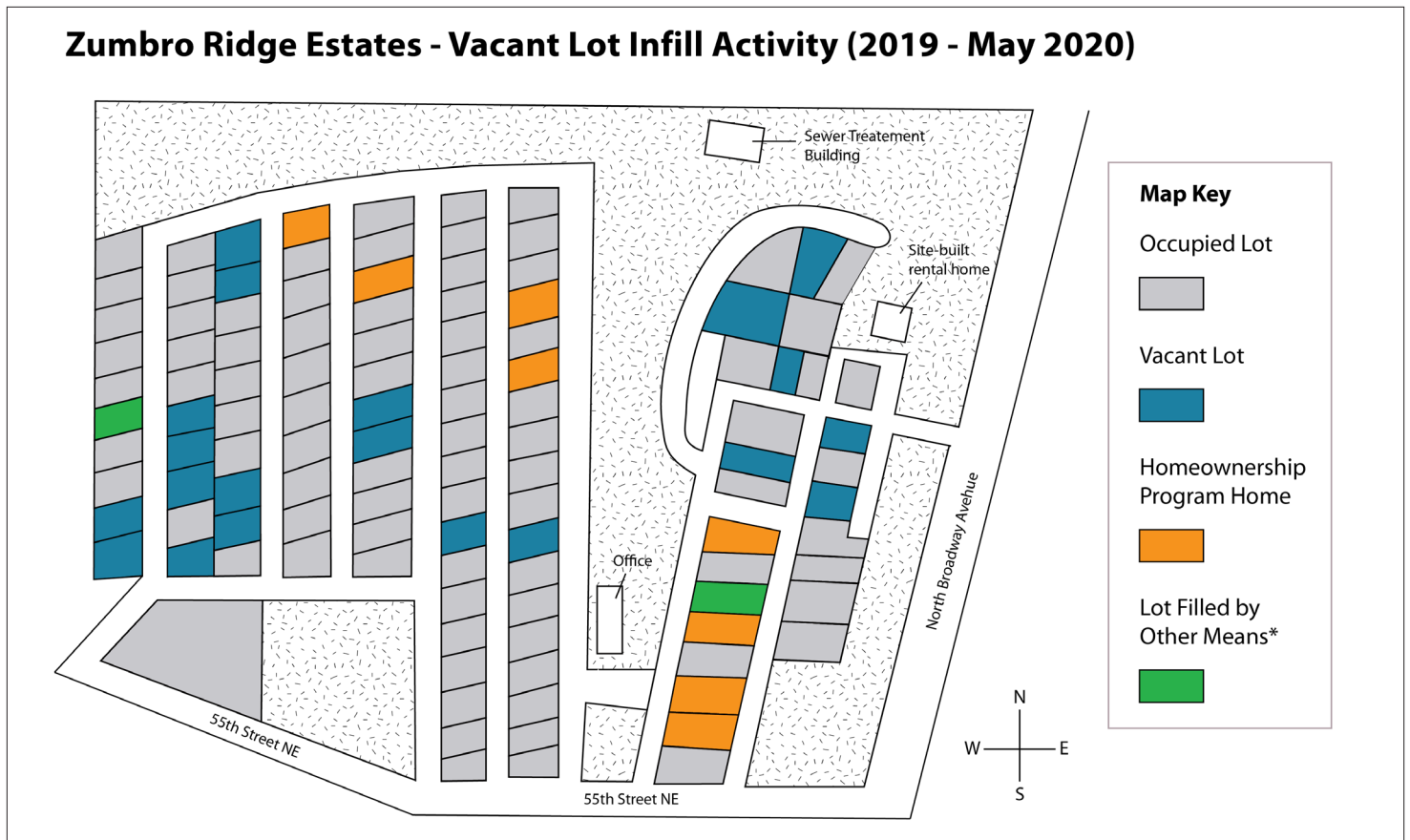
"[Homes of Harmony] was extremely easy to work with. They have a great [home] product and go above and beyond to make sure everything is the way it is supposed to be," Allie said.

After homes were chosen, the program partners sat down with staff from First Alliance, a local credit union, to develop a home loan product. First Alliance had already developed a track record of lending on manufactured homes and agreed to participate as a lender. The First Alliance loan product requires five percent down and allows applicants to use the First Homes assistance as their downpayment.⁸

First Alliance stands out among manufactured home lenders for a couple of reasons. For starters, they don't use credit scores as an automatic disqualification for applicants, which is a common practice at other larger, more traditional banks. The credit union also offers free financial counseling to applicants in need of assistance.

"Applicants with low credit scores often don't see

Zumbro Ridge Estates - Vacant Lot Infill Activity (2019 - May 2020)



To date, Zumbro Ridge has filled eight lots with homes purchased with the line of credit from The Rochester Area Foundation (marked in orange on the map). The Co-op filled two additional lots through a promotional sale event held by Homes of Harmony (marked in green). Zumbro Ridge plans to fill the remaining twenty vacant lots over the next three to four years.

the impact of their revolving debts, such as credit cards, personal lines of credit, etcetera,” First Alliance mortgage originator David Marcoux said. “One of the ways we help applicants with high revolving debt utilization is to help them free up their available credit. We do this by converting their revolving debts to an installment loan, which can help boost [the applicant’s] score significantly.”

Amanda Mata, one of the program homebuyers, consolidated her revolving debt with First Alliance, which allowed her to increase her credit score by 75 points and access a lower interest rate.

“I couldn’t have purchased the home without [the credit union’s] help,” Amanda said. “They were very easy to work with and helpful throughout the entire process.”

Co-op Impact

Zumbro Ridge installed their first five homes in July 2019. An additional two homes were installed in October 2019. The latest home was placed in May 2020. As homes sell, the Co-op recycles the sale proceeds and works with First Homes to order additional homes.

In addition to the eight homes brought in with the Foundation’s line of credit, Allie also sold two homes through Homes of Harmony’s annual promotional event called “Spring Fling.”⁹

The addition of these ten homes increases Zumbro Ridge’s rent income by \$45,000, an eleven percent (11%) increase.¹⁰ Put into context, this added revenue represents twenty percent (20%) of the Co-op’s total 2020 operating expense budget, or, put another way, is the equivalent of the Co-op’s total water and sewer budget for the year. Zumbro Ridge is going to need every bit of this extra revenue in the coming years as they work to complete a municipal sewer connection project and several other smaller improvement projects.¹¹

“It’s pretty simple,” Allie said. “We have two options for increasing revenue: either raise the lot rent or add revenue by filling vacant lots. Obviously, everyone is motivated to keep rent increases low, so we focus on filling lots.”

Zumbro Ridge plans to fill all 21 of the remaining vacant lots in the community over the next three to four years.

Homebuyer Impact

The Zumbro Ridge homeownership program has allowed participating homebuyers to obtain all the benefits of homeownership at an affordable price point and in a community where they feel they and their families can put down roots.

For newly-wed Tyler Watson, his new home has afforded he and his wife more privacy. Tyler's parents and grandparents both live in Zumbro Ridge and the couple had been living with his parents since they wed just over a year ago. They had been looking for their own place for a while, but wanted to stay near Tyler's family. Tyler and his wife saw the homeownership program as an opportunity to get the best of both worlds: privacy and proximity to family.

Another big factor in the couples' decision to purchase one of the homes was that the home was move-in ready and came from a trusted dealer and installer. Tyler and his wife financed their three bedroom, two bath home through First Alliance and moved into the home in November 2019.

Amanda was the first buyer to move into her three-bedroom, two-bath home after the first round of homes were installed in late July. Before she had even moved in, she was recruited to the Zumbro Ridge board of directors and now serves as Treasurer.

Amanda, who is a medical assistant and mom to three small kids, had been looking for a new home for several months before finding Zumbro Ridge. For the past five years, she and her children had been living in a small, rented site-built home outside Rochester. After conceiving her third child, however, Amanda's landlord told her that, due to the homes' occupancy limit, she would have to move out. Amanda saw her purchase of one of the Zumbro Ridge homes as an intergenerational win-win for her family.

"A manufactured home was a great option for our family, because the kids are small enough right now that we don't need a whole lot of space," she said. "When we outgrow the home, it'll be a perfect place for my parents to move into as retirees. Everything is on one-level and will be affordable for them."

The fact that Zumbro Ridge is resident-owned played a role in the homebuyers' decision as well.

"The prior owners [of Zumbro Ridge] didn't have a good reputation," Tyler said. "Since becoming resident-owned, things have really turned around. There's lots of improvements happening. The change in ownership made the decision to stay a lot easier for us."



Amanda Mata and her children pose for a photo in their new living room.

"I looked at other [communities]," Amanda said, "but what sold me on Zumbro Ridge was the fact that it was resident-owned. I didn't want to line someone else's pocket. I wanted my rent to go back into the community."

Potential to Scale

Over the years, NCF has developed programs and policies to assist client cooperatives to increase their physical occupancy, all with varying degrees of success, but none with the potential to scale in a way that is replicable across all the co-ops we support.

What sets the Zumbro Ridge program apart from other infill strategies of the past is the inter-organizational approach to the program and, most notably, the financial education and supports available to homebuyers. NCF believes that this collaborative approach to vacant lot infill is a replicable model and has potential to scale across the other cooperatives we serve.

The Zumbro Ridge homeownership program is an excellent example of the localized innovation that the cooperatives we support are famous for and reminds us of a central tenet of the cooperative model at-large: that the best, most practical solutions often come from inside, not outside, our communities.

Endnotes

1 In 1976, the U.S. Department of Housing and Urban Development (HUD) established the Manufactured Home Construction and Safety Standards (MHCSS), commonly known as the “HUD Code.” The HUD Code regulates all aspects of construction, including durability, transportability, fire resistance, and energy efficiency. The HUD code is updated periodically based on recommendations of the Manufactured Housing Consensus Committee (MHCC). Homes built before the institution of the HUD Code are considered “mobile” homes. Homes built post-1976 are considered “manufactured” homes. HUD revised the codes in 1994 and in 1999, adding more laws that make manufactured housing and its foundations safer. MHC owners and home rehabbers will often group manufactured homes into three general timelines (pre-1976, 1976 - 1994, and post-1994). Owners and rehabbers use these timelines to help estimate the condition of a home based on the building code that the home was built under.

2 The cost to demolish a mobile or manufactured home depends on where the home is located, the size of the home, and the building materials used on the home. In the manufactured home communities served by NCF, demolition costs range anywhere from \$5,000 to upwards of \$10,000. If the home is in good enough condition, the home can be hauled away to a landfill for a lower price, typically under \$5,000.

3 Preparation of vacant manufactured home lots consists of properly grading the pad where the homes’ foundation will be prepared and ensuring the necessary utility connections are installed and up to code. MHC owners are responsible for providing water and sewer connections and an electric pedestal for each home.

4 Affordable housing is one of The Rochester Area Foundation’s core funding priorities. The Foundation provides leverage funding to support Low Income Housing Tax Credit (LIHTC) projects and other smaller, local housing projects for which traditional financing services are not available or not flexible enough. The Foundation also provides administrative support to the Coalition for Rochester Area Housing. rochesterarea.org/initiatives/housingcoalition

5 Under Minnesota Statute 327B.04, manufactured homes can only be sold by a licensed manufactured home dealer. *revisor.mn.gov/rcite/327B.04*

6 Manufactured home dealers typically sell homes from one or two builders. Homes of Harmony carries Schult and Clayton brands of manufactured homes as well as Northstar, a custom modular home product. There are 148 manufactured home builders in the United States and a handful of builders based in Minnesota, including Schult Homes (owned by Clayton Homes) in Redwood Falls, Highland Manufacturing Company (owned by Champion Home Builders) in Worthington, Friendship Homes in Montevideo, and Homark Homes in Red Lake Falls. mhphoa.com/builders/

7 Schult is one of the oldest builders of manufactured homes in the country. The homes for the Zumbro Ridge program come from one of Schult’s factories in Redwood Falls, MN. In recent years, Schult was acquired by Clayton Homes, which is the largest manufactured home builder in the country. Clayton Homes is owned by Berkshire Hathaway, Inc. schultlewiston.com/page/history

8 First Alliance Credit Union will structure loan terms on single-section homes for up to 15 years and up to 20 years for double-section homes.

9 Allie negotiated a deal with Homes of Harmony where she was granted sale rights to two Spring Fling homes. If she was able to sell the homes, the homes would be installed in Zumbro Ridge. Allie sold both homes successfully and the homes were installed in July and August 2019.

10 Zumbro Ridge’s 2020 rent income budget is \$405,000. The Cooperative’s 2020 operating budget is \$224,600.

11 Zumbro Ridge currently uses a private, onsite wastewater treatment facility which has reached the end of its useful life. The Cooperative secured construction financing to upgrade the facility at the time they purchased the property in 2017 and hope to secure a Point Source Implementation Grant (PSIG) from the Minnesota Pollution Control Agency. The PSIG will allow them to connect to the Rochester sewer system in 2021.