Financing Multifamily Factory-Built Housing

Factory-built housing is primarily built inside of a factory and then assembled on site. Typically, factory-built projects are composed of standardized, repeatable designs which involve panels or modules. Factory-built housing construction methods are similar to mass production processes used for building cars or airplanes and are distinct from *site-built housing* construction methods in which nearly all building components are built on the construction site.

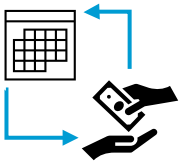
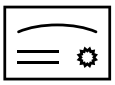
Factory-built housing has **specific advantages** over ***site-built housing:*** it requires less construction time, is less susceptible to delays due to weather, and is less disruptive to the surrounding community during construction. In addition, automation within the factory and training unskilled laborers to perform repetitive tasks can reduce reliance on skilled labor, which is often in short supply.

Common Risk Considerations for the Finance Industry

Considerations	Further Details
Higher Upfront Costs Factory-built housing financers must provide money upfront to purchase all the materials needed to build modules.	***Construction time:*** Although factory-built housing has higher upfront costs for materials, construction time is 20 to 50 percent faster than for site-built housing because aspects of the production process can occur simultaneously.
Key Financial Risks Financers must account for different financial risks with factory-built housing than with site-built housing.	***Community regulations:*** Variations in building codes across states and state-specific construction material requirements can create challenges for using standardized, repeatable designs or standard product lines. When manufacturers change the design of modules to fit local building codes, resulting in deviations from the standard product lines, it creates inefficiencies in production that can increase costs.
	Community concerns: Community residents sometimes perceive factory-built housing as low quality and bad for property values. Pushback from the community can cause permitting and other delays. Due to delays, new costs related to the storage of completed modules may arise.
	Transportation: State transportation permitting fees and highway load-size regulations can add to transport costs for modules. Other factors like road conditions, narrow bridges, and landforms can also pose challenges. Additionally, finished products are at risk of damage during transport. All these factors can lead to unforeseen increases in the cost of the project.

Best Practices for Financers of Factory-Built Housing

Best practices to address challenges unique to factory-built housing and minimize risk to financers.

Best Practices		Further Details
Addressing Higher Upfront Cost		
Negotiate payment plans that distribute costs appropriately.		**Set payments to coincide with the number or percentage of modules completed.** **Set a payment plan mimicking site-built multifamily construction projects** based upon designated milestones such as when materials arrive at the factory and when units are produced, transported, and installed.
Obtain accurate itemized estimates of project cost and timeline.		**Ask for itemized upfront cost** estimates for projects. Manufacturers can provide these costs because they use a similar standardized design and production process for each project. **Itemized estimates** should account for the cost of materials, production, transportation, and siting.
Ask for a tour of the factory.		**Request factory tours** to learn more about the construction process, see the progress made toward module completion, and see how funds are being spent.
Addressing Key Financial Risks		
Develop contracts that clearly define risks and who bears them at each stage of the project.		Some examples of areas to cover in contracts include: **Storage:** Who is responsible for storage fees of completed modules if projects are delayed due to permitting or other unanticipated issues? Also, who is responsible for potential damage if modules are stored off site from a factory? **Transportation:** Who is responsible for repairs if modules are damaged during transportation?
Identify manufacturers with an established work history in the community.		Manufacturers with prior experience in a community likely have a good understanding of local building codes and regulations, as well as the potential for community pushback. Companies **with strong local reputations** may have taken steps to reduce negative perceptions of factory-built housing through social media or demonstrations that showcase the quick construction of factory-built housing.
Identify manufacturers that work with state-certified inspectors.		Financers should work with factory-built housing companies that engage a state-certified inspector who can better ensure compliance with building codes early in the project. This mitigates the risk of increasing costs due to delays from non-compliance with building codes.