

Will Modular Homes Make You Rethink Your Housing Options?

After years of high expectations but low numbers, these factory-built homes may be primed for breakout.

By [Teresa Mears](#), Contributor | March 27, 2015, at 12:31 p.m.

It seems that everywhere you turn online, you see another picture of a fabulous modular home, built in a factory but looking every bit as good as any home built on-site.

But looks can be deceiving. Decades after modular home building was touted as the wave of the [future in real estate](#), the actual number of modular homes built in the U.S. is still small – about 14,000 last year. While growth is slow, proponents see several factors that could boost modular construction’s popularity.

“The concept of modular is huge,” says Marianne Cusato, designer of the Katrina Cottages, which started as a plan for housing that could be built quickly [after a hurricane](#). “The idea that you can figure out online what you want, order it up and have it appear – it’s the holy grail of housing.”

Modular homes – built in a factory to local building codes and assembled on-site – made up less than 1.5 percent of all the homes built in the U.S. in 2014, according to Fred Hallahan of Hallahan Associates, a Baltimore housing consultant with a focus on modular housing. Modular homes are most popular in the Northeast, where labor costs are highest, making up 4 percent of all homes built in the region in 2014.

While modular homes made up only a small share of homes built last year, Hallahan says the “wave has been ready to crest for decades.” One reason for this is increased design flexibility, which has grown enormously with the help of computer-aided design. This often makes modular construction of custom houses more economical than stick-built homes.

Sheri Koonen, an author and journalist who specializes in writing about prefab construction, has written a series of richly illustrated books on the topic in the last decade, including “Prefabulous” and “Modular Mansions.” She believes modular is by far the best way to build.

“The people who are not using prefab, it’s because they don’t know it,” Koonen says. “It’s faster; the quality in general is better. ... It’s absolutely the best way to build a house.”

Kevin Flaherty, executive vice president of business development for Innovative Building Systems, which has seven factories that build modular [single-family homes](#) and commercial buildings under several company names, notes that modular homes have to be strong enough to

be transported and lifted with a crane. That guarantees high quality but also higher costs, meaning that modular homes in areas with lower wages cost about the same as traditional homes.

Flaherty points to economics as the primary reason modular homebuilding has not grown faster. “We build a stronger and more durable structure than site construction does,” he says.

When people hear “modular home,” they may think of mobile homes, now known as manufactured homes. But the two products are not the same. A modular home is built partly or entirely in a factory to the same standards that builders are required to meet in conventional on-site home construction.

If you want to buy a modular home, you can get a [conventional mortgage](#) and put it on any lot zoned for single-family construction. A manufactured home is built to standards set by the U.S. Department of Housing and Urban Development, and the loan for one is similar to an auto or boat loan. While those homes have improved in recent years, they are not built to local building codes and can only be used in areas zoned for manufactured homes.

When you buy a modular home, you not only need to supply the land, you also need to [find a builder](#) to assemble the prefabricated elements on your site, plus hire plumbers, electricians and other tradespeople to do finishing and utility connections and meet whatever zoning and building code requirements are set by your municipality.

“It’s basically the same (building) process but in an environmentally controlled environment,” Hallahan says. “It really hasn’t been a quantum leap forward. It hasn’t really been able to break the cost-effectiveness barrier nationally.”

Modular construction is most popular in New England, where weather is harsh and labor costs are high. “Prefab is a great alternative. They can work 12 months a year. They can work through bad weather and in a more comfortable environment,” Koones says. Flaherty estimates that building a modular home in New England is 10 percent to 15 percent cheaper than building a traditional home on-site.

A number of modular homes were built in New York and New Jersey to replace homes destroyed after Hurricane Sandy in 2012, and Flaherty estimates those homes cost 20 percent less than site-built ones, plus they could be constructed more quickly.

While the modular homes receiving the most attention online and in magazines are often modern designs, modular homes come in all styles. They are growing in popularity on urban infill lots, single lots in established city neighborhoods, where they can match the style of existing homes, and also in rural areas, where it is harder to find skilled labor for a stick-built home.

“Up until about five years ago, the industry was not offering enough design flexibility to the consumer,” Flaherty says. “Consumers today are so much more savvy and interested in good design.”

Proponents of modular construction see opportunities ahead. Many skilled laborers were lost during the recession, which may make factory-built homes more popular with builders. Modular homes also benefit from an emphasis on energy efficiency. And the ease of [adding custom elements](#) such as bay windows and additional rooms appeals to consumers.

“Now we’re finding markets where we weren’t as competitive in the past, we’re becoming more competitive,” Flaherty says. “I think we’re at a juncture where we’re going to see a significant shift.”

Tags: real estate, housing, housing market, money



[Teresa Mears](#) CONTRIBUTOR

Teresa Mears writes about personal finance, real estate and retirement for U.S. News and other publications. She was previously the real estate blogger for MSN Money and worked as the Home & Design editor for The Miami Herald. During her journalism career, she worked on coverage of immigration, religion, national and international news and local news, serving on the staffs of The Miami Herald, The Los Angeles Times and the St. Petersburg Times. She has also been a contributor for The New York Times and The Boston Globe, among other publications. She publishes *Living on the Cheap* and *Miami on the Cheap*. Follow her on Twitter [@TeresaMears](#).