COMPANY PROFILE:
MODULAR BUILDING INSTITUTE

Founded in 1983, the Modular Building Institute (MBI) is the only international non-profit trade association serving the commercial modular construction industry. Members are manufacturers, dealers and contractors of commercial modular building projects, as well as associates supplying building components, services and financing.

Members are located in 12 countries around the globe and provide all types of building space, from relocatable buildings to complex multi-story permanent construction projects. MBI’s mission is to grow the industry and its capabilities by encouraging innovation, quality and professionalism through communication, education and recognition.

Each year, MBI hosts World of Modular, the largest gathering of professionals in the modular construction industry. The next World of Modular will be held March 16-19, 2013 in Scottsdale, Arizona.

For more information about the industry visit, www.modular.org.

ABOUT THE INDUSTRY:
COMMERCIAL MODULAR CONSTRUCTION

Commercial modular buildings are non-residential factory-built structures designed to meet federal, provincial, state and local building codes and in some cases designed to be relocated. The commercial modular building industry is comprised of two distinct divisions:

Relocatable or Industrialized Buildings — A partially or completely assembled building that complies with applicable codes, and state regulations, and is constructed in a building manufacturing facility using a modular construction process. Relocatable modular buildings are designed to be reused or repurposed multiple times and transported to different building sites.

Permanent Modular Construction (PMC) — PMC is an innovative, sustainable construction delivery method utilizing offsite, lean manufacturing techniques to prefabricate single or multi-story whole building solutions in deliverable module sections. PMC buildings are manufactured in a safe, controlled setting and can be constructed of wood, steel or concrete. PMC modules can be integrated into site built projects or stand alone as a turn-key solution and can be delivered with MEP, fixtures and interior finishes in less time, with less waste, and higher quality control compared to projects utilizing only traditional site construction.

THIS REPORT FOCUSES ON THE RELOCATABLE BUILDINGS DIVISION.
A SOUND INVESTMENT ........................................ 4-7
KEY MARKETS SERVED ..................................... 8-10
FINANCIAL DATA & SURVEY RESULTS .................. 11-15
MBI SEALS ....................................................... 16
2011 SUMMARY ................................................. 17
DEPRECIATION / RESIDUAL VALUES ...................... 18-19
STATE ADMINISTRATIVE PROGRAMS ..................... 20
BOARD OF DIRECTORS & MBI STAFF ..................... 22
SPONSORS ....................................................... 23
MBI estimates that there are well over 500,000 code-compliant relocatable buildings in use in North America today. Public school districts across North America collectively own and operate about 180,000 relocatable classrooms with the industry owning and leasing about 350,000 buildings — about 100,000 of which are classrooms. Additionally, many construction companies own a fleet of construction offices that move from site to site. These figures do not include “non-coded” units such as storage and shipping containers, although these units typically make up about 15 percent of a provider’s typical fleet.

The total estimated value of industry owned relocatable buildings is between $5.5 - $6.0 billion, with estimated annual revenue of $3.0 billion in North America.

The Process:

Primarily, four steps make up the relocatable building cycle.

1. Design approval by the end user and any regulating authorities
2. Construction of modules in a controlled environment
3. Transportation and assembly of modules at a site to create the finished building
4. Relocation to a new site for next use or return to a qualified plant to be repurposed

Specifications for modular buildings are usually communicated to a manufacturer directly by a customer or through a fleet owner. Fleet owners, responding to the space requirements of retail customers, work with customers to order new buildings from manufacturers and arrange for delivery and installation of the buildings when construction is complete. Fleet owners usually offer a variety of financing and leasing opportunities and range in size from single location providers with little or no lease fleet to large, well-capitalized companies with very large fleets.

Modular manufacturers produce buildings generally in independent, single-location facilities. Responding to fleet owner or customer requests, they generally operate as suppliers of modular units. Construction primarily occurs indoors away from harsh weather conditions preventing damage to building materials and allowing construction to be uninterrupted.

Customers served by relocatable buildings include federal, state, provincial and local governments; school boards, corporations, non-profit organizations, retail establishments, healthcare providers, as well as individuals, partnerships and sole proprietorships. Other uses include medical facilities, airport facilities, military installations, restaurants, churches and remote telecommunications stations.
University of Washington Dining Pavilion
Days to complete: 34
Interior Below
FLEXIBILITY

Some facilities are used as an adjunct to existing buildings, while others are stand-alone buildings. Flexibility and reutilization are the hallmarks of relocatable buildings. Unlike structures built onsite, which generally have fixed utilization and occupancy design, relocatable units fulfill a unique function of reutilization that is not site-specific. It is not unusual to have a relocatable building serve a wide variety of users during its long life span.

The flexibility of these buildings makes them a secure investment. During severe economic downturns, these conditions allow lessors to enjoy cash flows adequate to service debt. This flexibility is further enhanced by the ability to relocate buildings to more prosperous cities or industries as opportunities arise. Certain market segments of the industry are counter-cyclical. This is particularly true of schools, prisons and governmental agencies that want to transfer funding for facility needs from capital budgets to operating budgets. This concept also applies to industries that may want to expand but are uncertain about the long-term strength of their growth. Budget driven companies often opt for leased facilities. In such cases, modular buildings offer benefits and options without long-term capital commitments.

RAPIDLY DEPLOYABLE

No other method of construction allows for such rapid deployment of space. In cases of large scale natural disasters, code compliant relocatable buildings can be deployed within days to provide shelter, medical clinics, and classrooms to help restore a sense of normalcy to a community.

REMOTE LOCATIONS

Given that relocatable buildings are constructed off site in controlled settings, finding a skilled labor force in remote locations is less of an issue. From the hottest, driest desert locations to the coldest, most severe winter climates, relocatable buildings can be utilized anywhere.
SHORTER DEPRECIATION SCHEDULES

The primary difference between permanent construction and relocatable buildings is that in many cases, relocatable buildings are not permanently affixed to real estate. This allows for the building to be considered personal property or equipment and depreciated over a shorter span. While MBI provides a guideline in this appendix, it is important to consult a professional tax advisor on this matter.

SUSTAINABILITY

Relocatable buildings have been frequently criticized as being less than energy efficient structures in and of themselves. However, in recent years, many end users are beginning to realize the positive environmental impact relocatable buildings have. The very fact that the building is designed and constructed to be reused and relocated at multiple sites eliminates the need to build new structures at each of the subsequent locations of the relocatable building. In short, one relocatable building moved to ten different locations throughout its life takes the place of the energy required and waste associated with constructing ten separate buildings. Relocatable buildings are 100 percent reusable.
In 2011, the uses and sizes of relocatable buildings varied greatly. In MBI’s annual Awards of Distinction competition, relocatable building entries ranged from a 600 square foot construction office to a 450,000+ square foot workforce housing facility.

EDUCATION
Relocatable buildings have become a critical factor in managing student demographics and increasing enrollments. Relocatable classrooms are also ideal for swing space during new construction or renovation. Convenient, flexible, cost-effective temporary buildings can be delivered and operational in as little as 24 hours. These classrooms are measured for quality and code-compliance by state or third-party agencies through routine and random inspections, testing, and certification services.

Choose single classrooms or arrange multiple buildings in clusters to create a campus feel. MBI members supply steps, decks, ramps, and even furniture. Members also offer lease, purchase, and lease-to-purchase financing for a variety of public and private school needs. These classrooms are sometimes referred to as temporary, portable, or mobile classrooms.

School districts across North America are collectively the largest owners of relocatable classrooms, with about 180,000. California schools own close to 90,000 units; Texas schools own about 20,000; and Florida owns about 17,000. Typically larger school districts with high growth are more likely to own the units, which explain why California, Texas and Florida own so many. States like Georgia, North Carolina, Virginia, and Maryland own and operate about 3,000 each.

GENERAL OFFICE
When production demands increase, relocatable buildings can temporarily enlarge a current facility without permanent alterations to the site. Because the space is not permanent, many companies are able to expand without the budget approval process necessary for traditional capital expenses. Relocatable offices can be single- and multi-story buildings configured to include independent offices, conference rooms, and large open spaces for cubicles or other partition systems. Large and small businesses, as well as local and state governments, are typical users of relocatable office space.

RETAIL
Earlier occupancy means quicker return on investment. For retail occupancies, this can mean significant cash flow advantages. Standard floor plans are available for immediate delivery while custom buildings are built to customers’ specifications in weeks, not months. Unique to modular construction is the fact that while buildings are being built in a quality-controlled factory, site work is occurring at the same time.

Typical retail applications include new home sales centers, banks, golf pro shops, automobile dealerships, college bookstores, and concession stands. If a client’s emerging business needs are short term, temporary space will accommodate their financial situation, space requirements, and deadlines.
**HEALTHCARE**

Relocatable buildings for healthcare applications are designed and constructed to uncompromising standards of quality. A customer's new clinic, hospital extension, laboratory, diagnostic center, MRI unit, dentist office, or other medical facility can be open for business and serving communities in as little as a few days. Is your interest in serving patients as quickly as possible in the most safe and aesthetically pleasing environments available? These facilities offer quick, quiet, safe, and clean buildings with an unlimited choice of interior décor, furniture and equipment leasing.

**CONSTRUCTION-SITE & IN-PLANT**

Relocatable buildings have their roots in construction-site trailers, where speed, temporary space, and relocatability are important. Used as standard field offices, construction-site and in-plant buildings are available for immediate delivery. Standard construction is wood, but steel units are available to meet noncombustible requirements. In-plant buildings are available as single- or two-story units for industrial environments with noise-reducing insulation and are typically moveable by forklift and include electrical and communications wiring, heating, air conditioning, and even plumbing.

**SECURITY**

Relocatable buildings can be custom built for a variety of access and control situations. Toll booths, tickets sales offices, guard stands, and weigh stations are common applications. One and two-story wood and steel buildings have straight walls or walls that are tilted to improve views and reduce glare. MBI members supply a full line of portable storage containers for either short- or long-term. Heavy-duty storage units feature ground-level entry with double-swing doors for easy accessibility and are ideal for construction-site storage, equipment storage, warehousing, record keeping, industrial manufacturers, retailers, and others.

**TELECOMMUNICATIONS, DATA, AND EQUIPMENT CENTERS**

Economical and convenient equipment and storage buildings offer onsite protection from inclement weather and theft. Day in and day out, relocatable buildings offer durability and strength. Equipment shelters, temporary generator housing, and other applications are designed and built by MBI members to guard a client’s investment. These buildings can be as simple as steel containers to units that are heated and air conditioned with exteriors of brick, stone aggregate, or stucco.

**EMERGENCY HOUSING/DISASTER RELIEF**

There is simply no other means of providing fast, transitional shelter and basic community needs following natural disasters than relocatable buildings. Relocatable buildings can be quickly and efficiently deployed for emergency housing, medical, educational needs, or to accommodate relief workers.
DATA COLLECTION
RELOCATABLE BUILDINGS

Data for this report was compiled from a variety of sources, including data from a prepared survey questionnaire sent to members and non-members in the industry, public SEC filings, information obtained from state and provincial modular regulatory agencies, and direct communication with company leaders.

Of the estimated 350,000 code-compliant relocatable buildings owned by the industry, MBI obtained data from companies owning 238,441 or 68 percent of the market.
The relocatable buildings segment tends to track with overall construction and equipment rental activity. An increase in new construction starts generally means an increase in construction site office rental and transitional or swing space needs during construction.

**FLEET SIZE/COMPOSITION**

The total industry owned fleet size remained relatively unchanged last year. Effective age of lease fleet in a typical fleet owner inventory is approximately nine years.

Fleet owners indicated that top markets served were: classrooms or educational units; construction site offices; general offices; retail/hospitality; And “energy/industrial” This last category is comprised mainly of workforce housing accommodations in areas of energy exploration.

**FLEET UTILIZATION**

Utilization is commonly determined in one of two ways:

1. By dividing the total number of units on lease by the total number of units available to be leased.
2. By dividing the cost of the units on rent by the total cost of the equipment available.

For purposes of this report, method 1 was used. The local economy, geographic markets served, competition, as well as fleet composition play a major role in fleet utilization.

On average, fleet owner utilization rates have been flat or decreasing for the past several quarters. At year end 2011, fleet owners participating in this survey reported 81,220 of their 128,655 singlewide units were on lease for a 63.1 percent utilization rate. Additionally, fleet owners reported 59,154 of their 87,518 modular complexes were leased for a 67.6 percent utilization rate at year end 2011. Singlewide utilization held steady for the first quarter ending March 31, 2012, with utilization reported at 63.8 percent while complexes dropped slightly to 66.1 percent.

Addition historical utilization information as well as fleet composition and average rental rates are contained in Table 1.
<table>
<thead>
<tr>
<th>Year</th>
<th>Type of unit</th>
<th>Unit Count</th>
<th>Share of total</th>
<th>On Lease</th>
<th>Utilization</th>
<th>Average rent/month</th>
</tr>
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<td>2004</td>
<td>Classroom</td>
<td>30,286</td>
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<td>Storage</td>
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<td>$104</td>
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<td>Total/weighted average</td>
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<td>79%</td>
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<td>22%</td>
<td>22,731</td>
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<td>42,912</td>
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<td>81%</td>
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<td>Storage</td>
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<td>18%</td>
<td>18,662</td>
<td>77%</td>
<td>$99</td>
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<tr>
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<td>Total/weighted average</td>
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<td>107,353</td>
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<td>$323</td>
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<td>2008</td>
<td>Classroom</td>
<td>35,811</td>
<td>20%</td>
<td>25,489</td>
<td>71%</td>
<td>$297</td>
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<tr>
<td></td>
<td>Mobile Office</td>
<td>64,013</td>
<td>36%</td>
<td>48,496</td>
<td>76%</td>
<td>$327</td>
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<td>23,255</td>
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<td>$983</td>
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<td>26,910</td>
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<td>75%</td>
<td>$101</td>
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<tr>
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<td>Total/weighted average</td>
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<td>$356</td>
<td></td>
</tr>
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<td>2010</td>
<td>Classroom</td>
<td>30,087</td>
<td>18%</td>
<td>17,172</td>
<td>57%</td>
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<td>Mobile Office</td>
<td>58,589</td>
<td>36%</td>
<td>35,577</td>
<td>61%</td>
<td>$298</td>
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<td>163,441</td>
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<td>65%</td>
<td>$322</td>
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</table>

Source: Sage Policy Group, AccuVal
Fleet owner’s participating in the survey had revenue ranging from $150,000 to in excess of $600,000,000. Income from the three largest companies primarily engaged in the sale and lease of relocatorable buildings exceeds 50 percent of the total industry revenue. The ten largest fleet owners account for greater than 75 percent of total revenue while the top twenty account for 90+ percent.

Among the regional fleet owners with branches in multiple states and territories, average revenue is in the $30 to $50 million range. Finally, there are numerous independently owned small fleet owners with one or two local branches. Typically, these fleet owners generate less than $5 million in annual revenues. About 75 percent of all inventory of relocatorable buildings in North America is controlled by the ten largest fleet owners, with 90 percent controlled by the top 20 largest fleet owners.

Fleet owners generated revenue from the following sources:

- Leasing activity — 45%
- Service — 25%
  (Transportation, installation, stairs, ramps, etc.)
- Sales — 30%

Sales activity comes from the sale of both new and used buildings. Our survey has demonstrated year after year that fleet owners are able to sell their used buildings between seven and ten years after original purchase for at least 100 percent of the original cost. For 2011, fleet owners reported selling units on average after 9.5 years at an average sale price to original cost ratio of 1.15:1, up from 1.01x in 2010.

BUSINESS OPERATIONS

In order to recoup the initial capital investment in a unit, a fleet owner typically needs to have the unit on lease for about 44 months. The average lease term per customer is 24-28 months. Once the initial investment is recouped, it is not uncommon for a fleet owner to continue leasing the unit to recover the investment a second time, and finally sell the unit (on average after 9.5 years) at an average sales price to original cost ratio of 114 percent of the original investment.

When asked about depreciation and residual values of the lease fleet, responses varied based on condition and capital improvements to the fleet, market use of the fleet, and the composition of the types of units in the lease fleet, (construction offices, classrooms, etc.). A majority of the units in the industry lease fleet are depreciated over a 20 year period with a 50 percent residual value.

The economic life (different than depreciable life) of a leased relocatable building is determined by comparing the total cost of maintaining the asset with the income producing capacity over its useful life. Cost includes the initial manufactured cost plus all expenditures for items such as maintenance and taxes incurred during its life. Income includes lease revenue during the buildings useful life and sale value upon disposition. Residual value is understood to be the anticipated “value” of the building at the end of the lease.
Based on a 2011 report by Sage Policy Group analyzing thousands of relocatable building transactions over a 10 year period, the average annual return on investment of a relocatable building sold was 18 percent, which was achieved after an average holding period of 5.8 years. (Source: Sage Policy Group, Inc. The Economic & Financial Performance of the U.S. Modular Building Industry)

In general, relocatable buildings, if property maintained and operated, have useful lives comparable to any other building type. Capital improvements, such as HVAC and roof replacement, are frequently made to these units, which can extend their useful lives for several additional years.

The typical relocatable building will be moved an average of seven times over its life. Again, this varies based on the size and type of the unit. For example, a smaller building made up of one or two modules may move 12 to 15 times over its life. Construction site offices are good examples of this. Larger complexes on the other hand may only move three to five times over their life.
STATE LABELING PROGRAMS & MBI SEAL

A relocatable building is a partially or completely assembled building that complies with applicable codes and state regulations. But often times it’s hard to tell if a building has been inspected and meets the code requirements when it arrives at a new location.

Given that the construction occurred offsite and without the supervision of the local building code official, several states have implemented programs to ensure safety and code compliance in relocatable buildings. Typically, a manufacturing facility must meet state guidelines for quality and safety, the building plans must be approved by a licensed professional, and the building itself must be inspected by a qualified third party engineer or design professional. After a building has been inspected and determined to meet all the code requirements, a state label is affixed to demonstrate to local code officials that the building has in fact been inspected. This state label stays with the building throughout its life and multiple moves, provided the building is not significantly altered. If so, the owner must reapply to have the building re-inspected and have a new label affixed.

Simply relocating the building (unaltered) from one site to another does not trigger the recertification process. Unlike the "moved structures" section of the building codes, these units fall under the existing building codes section on "relocated or moved buildings." The relocated units do need to meet all life safety, seismic, wind and snow requirements at the new location.

Often times, a fleet owner will have a building labeled in multiple states to expand the opportunity for future customers. In these cases, the building must be constructed to meet the requirements of the most stringent state.

The appendix on page 20 lists all statewide programs that oversee relocatable buildings.

In addition to a state label, customers should also look for and require a MBI label. This label indicates that the building was constructed and/or leased by a member of the trade association who subscribes to the industry’s code of ethics. The MBI label also has a toll free hotline for the owner to call with any issues or concerns about the building. The MBI label does not ensure compliance to any codes, but does give the owner some peace of mind about the integrity of the supplier.
2011 SUMMARY

- Revenue decreased slightly in 2011
- Fleet size remained relatively unchanged
- Singlewide utilization at 12.31.11 = 63.1%
- Utilization of modular complexes at 12.31.11 = 67.6%
- Effective average age of units in fleet = 9.3 years
- Average sales price to original cost ratio = 1.15 to 1
DEPRECIATION & RESIDUAL VALUES

The economic value of a leased mobile office or modular building is determined by comparing the total cost of the asset with the income producing capacity over its useful life. Cost includes the initial manufactured cost plus all expenditures for items such as maintenance and taxes incurred during its useful life. Income includes lease revenue during the buildings useful life and sale value upon disposition. Residual value is understood to be the anticipated "value" of the building at the end of the lease.

The mean annual depreciation has ranged between 5 to 6 percent for the last several years.

While there is no specific IRS ruling pertaining to depreciation of modular buildings, the following are intended to be general guidelines:

Always consult a professional tax advisor

Visit the IRS Web site for additional resources: www.irs.gov/publications/p946/index.html

The determination as to which depreciation recovery period to apply to the building is based upon whether the property is considered real or personal.

Generally speaking, the buildings (modular units) alone do qualify for a faster depreciation than real property. However, once affixed to a foundation, the decision as to whether the property is real or personal (temporary or permanent) falls within the jurisdiction of the local code official.
To help determine if a property is considered real (permanent, not intended to be moved), consider the following:

The question of real vs. personal can be answered by both investigating the original building design and a term called inherent permanency. Inherent permanency is a definition that addresses the question of "Is this structure designed and intended for permanent use?" This issue is relevant, as nearly any structure can be moved. The question of inherent permanence asks at what point you can consider a structure easily movable and when is it not easily relocatable or reasonably achievable.

Utilizing the six-way test that was established in the federal court cases of Whiteco and further used extensively in the Fox Photo case (a modular commercial structure), the courts recommend that it be viewed under the six-way test as established in the Whiteco case:

1. Is the property capable of being moved and has it in fact been moved?
2. Is the property designed or constructed to remain permanently in place?
3. Are there circumstances that show that the property may or will be moved?
4. How substantial a job is removal of the property, and how time consuming?
5. How much damage will the property sustain upon removal?
6. What is the manner of affixation to the property to the land?
**STATE ADMINISTRATIVE PROGRAMS:**

HUD = Federal HUD Code manufactured housing  
MH = Residential modular homes  
PB = Commercial relocatable buildings

<table>
<thead>
<tr>
<th>States with Programs</th>
<th>Agency</th>
<th>Applies to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>Manufactured Housing Commission</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>Arizona</td>
<td>Dept of Building and Fire Safety/Office of Mfg Housing</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>California</td>
<td>Housing &amp; Community Development/Factory Built Housing</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Colorado</td>
<td>Division of Housing</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>Florida</td>
<td>Dept of Community Affairs/Manufactured (Modular) Bldgs Program</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Georgia</td>
<td>Dept of Community Affairs/Industrialized Buildings Program</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Indiana</td>
<td>Housing &amp; Community Development</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>Iowa</td>
<td>Division of Building Safety/Modular Buildings</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Idaho</td>
<td>Dept of Public Health</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>Indiana</td>
<td>State Fire Marshal</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>Iowa</td>
<td>State Fire Marshal</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Kentucky</td>
<td>Department of Housing</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>Maryland</td>
<td>Housing &amp; Community Development</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>Manufactured Building Program</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>Michigan</td>
<td>Bureau of Construction Codes</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Minnesota</td>
<td>Dept of Labor &amp; Industry (IBC)</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>Missouri</td>
<td>Public Service Commission</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Montana</td>
<td>Department of Labor &amp; Industry</td>
<td>HU, MH, RB, PMC</td>
</tr>
<tr>
<td>Nevada</td>
<td>Department of Business &amp; Industry</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>New Mexico</td>
<td>Construction Industry Codes Div</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>State Fire Marshal</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>New Jersey</td>
<td>Bureau of Code Services (IBC)</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>New York</td>
<td>Department of State</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>North Carolina</td>
<td>Dept of Insurance</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>North Dakota</td>
<td>Dept of Commerce (IBC)</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Ohio</td>
<td>Building Codes</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Oregon</td>
<td>Building Codes Division</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>Dept of Community and Economic Development</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>State Building Commissioner (IBC)</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>South Carolina</td>
<td>Dept of Labor</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Tennessee</td>
<td>Dept of Commerce and Insurance</td>
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</tr>
<tr>
<td>Texas</td>
<td>Industrialized Housing</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Virginia</td>
<td>Housing &amp; Community Development</td>
<td>HUD, MH, RB, PMC</td>
</tr>
<tr>
<td>Washington</td>
<td>Department of Labor &amp; Industry</td>
<td>MH, RB, PMC</td>
</tr>
<tr>
<td>Canada - Alberta</td>
<td>Municipal Affairs</td>
<td>HUD, MH, RB, PMC</td>
</tr>
</tbody>
</table>

20
Illinois State Univ. MCN Clinical Lab
Days to complete: 84
Left: interior view

SAVE THE DATES

30th Anniversary
2013
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